REAUTHORIZATION OF THE DEFENSE PRODUCTION ACT

HEARING

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

SECOND SESSION

TO RECEIVE TESTIMONY FROM THE AGENCIES GENERALLY CHARGED WITH RESPONSIBILITIES UNDER THE DEFENSE PRODUCTION ACT—THE DEPARTMENTS OF DEFENSE, COMMERCE, AND INTERIOR, AND THE FEDERAL EMERGENCY MANAGEMENT AGENCY

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CONTENTS

TUESDAY, APRIL 20, 1982

	Page
Opening statement of Senator Schmitt	1
Opening statement of Senator Bentsen	40

WITNESSES

Louis O. Giuffrida, Director, Federal Emergency Management Agency, accompanied by Paul Krueger, Assistant Associate Director for Resources Preparedness	2
Prepared statement	2
Establishment of the Emergency Mobilization Preparedness Board	4
Extension of Defense Production Act authorities	4
Amendments to the Defense Production Act	5
Resource allocation systems	5
Assessment of industrial capacity problems	6
Machine tools for mobilization	6
Voluntary agreements	7
Materials stockpiling	7
Five-year extension	9
Machine tool trigger audit program	9
Lawrence Brady, Assistant Secretary for Trade Administration, Department of Commerce	10
Prepared statement	10
Commerce Department programs conducted under the Defense Production Act	67
Federal mobilization programs directed at improving the defense industrial base	68
Richard Donnelly, Director, Industrial Resources, Office of Research and Engineering, Department of Defense, accompanied by John E. De Breuil and John F. Eck	13
Prepared statement	13
Reprint of paper titled "Priorities and Allocations: The Defense Materials System and the Defense Priorities System	59
John D. Morgan, Chief Staff Officer, Bureau of Mines, Department of the Interior	15
Prepared statement	15
U.S. net import reliance of selected minerals and metals as a percent of consumption in 1981	46
National materials and minerals program plan and report to Congress	18
Panel discussion:	
Surviving limited embargoes	42
Emergency action teams	44
Procurement leadtimes	49
Industry evaluations	50
Demand for skilled machinists	53
Production equipment	56
Geologic environments	63
Stockpiling	64

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TUESDAY, APRIL 20, 1982

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, D.C.

The committee met at 10 a.m. in room 5302, Dirksen Senate Office Building, Senator Harrison Schmitt presiding.

OPENING STATEMENT OF SENATOR SCHMITT

Senator SCHMITT. The hearing will come to order. Good morning, everyone. The Defense Production Act, which is the subject of consideration by the committee this morning, is the foundation of our Nation's preparedness, its capability both in times of war and in peacetime. The Defense Production Act, or DPA, provides the President with the authority to divert certain materials and facilities to defense purposes, to reduce the time required for full mobilization, to insure availability of strategic and critical materials, including energy, to insure the productive capacity and supply for the Nation in a time of crisis and to develop preparedness programs.

The Defense Production Act was originally enacted in 1950 as an outgrowth of the lack of preparedness that came to light as the Nation approached the Korean war. Since then, the DPA has been routinely extended, usually for periods of 1 to 2 years.

Today's hearing is for the purpose of receiving testimony from those agencies generally charged with responsibilities under the DPA, the Departments of Defense, Commerce, Interior, and the Federal Emergency Management Agency.

Each of these agencies I know favors the extension of the act for a period of 5 years. I would hope that each of the witnesses will comment on the reasons for extending the act for this particular period of time, longer than usual, rather than the 1- or 2-year periods which have been the practice in the past.

More important, I'm keenly interested, as I know the rest of the committee is, in the testimony of today's witnesses concerning the efforts being made in the executive branch to improve the condition of our defense industrial base. I know that many, if not most, of the programs in this area are not directly associated with the Defense Production Act, but they do have a very special bearing on our attitude with respect to any perceived need to alter, expand or provide funds for DPA authorities.

There's been a good deal of discussion of late on the health of our Nation's defense industrial base and its ability to produce needed defense equipment in a timely and efficient manner. Later I will have some questions for our witnesses in this area.

I note that the administration has discovered the Defense Production Act, particularly in the Tosco matter, where at least in this Senator's view it was used inappropriately to assist a company that, I believe, had sufficient resources, directly or indirectly, available to it to do the task that it had proposed to do.

On the other hand, there seems to be reluctance to use DPA authorities where we have true strategic mineral shortages and true strategic minerals and materials vulnerability relative to the threat of embargoes on imports of those particular commodities.

So I'm not particularly happy with the way the DPA has been used by this administration so far. However, I do believe that its authorities are generally the correct ones for any administration and any executive to exercise, hopefully wisely and judiciously.

Our witnesses this morning are Louis O. Giuffrida, Director of the Federal Emergency Management Agency; Lawrence Brady, Assistant Secretary for Trade Administration, Department of Commerce; Richard Donnelly, Director, Industrial Resources, Office of Research and Engineering, Department of Defense; and John D. Morgan, Chief Staff Officer, Bureau of Mines, Department of Interior.

General, if you would proceed as our first witness, followed by Mr. Brady, Mr. Donnelly, and Dr. Morgan, and then we will have some questions after you've all had a chance to state your positions.

STATEMENT OF LOUIS O. GIUFFRIDA, DIRECTOR, FEDERAL EMERGENCY MANAGEMENT AGENCY, ACCOMPANIED BY PAUL KRUEGER, ASSISTANT ASSOCIATE DIRECTOR FOR RESOURCES PREPAREDNESS

Mr. GIUFFRIDA. Thank you, Mr. Chairman. I appreciate this opportunity to discuss with you the resources preparedness policy of the United States and specifically the role of the Defense Production Act in defense preparedness. I have with me today Mr. Paul Krueger who is the Assistant Associate Director for Resources Preparedness in the Federal Emergency Management Agency.

With your permission, Mr. Chairman, I would like to submit my statement for the record and briefly summarize the key elements.

Senator SCHMITT. Without objection, your testimony will be a part of the record. We appreciate the summary.

[Complete statement follows as though read:]

Mr. GIUFFRIDA. Mr. Chairman and members of the committee. Thank you for this opportunity to discuss with you the resources preparedness policy of our Nation, and specifically the role of the Defense Production Act in defense preparedness. I am accompanied today by Mr. Paul Krueger, the Assistant Associate Director for Resources Preparedness in the Federal Emergency Management Agency.

My agency is dedicated to the development and maintenance of a comprehensive and coordinated emergency resources management

capability. This includes an industrial base capable of responding to, and recovering from a wide range of possible emergency contingencies, including war. There is an urgent need for a strong national resources preparedness program, especially a strong U.S. industrial mobilization capability and adequate supplies of strategic and critical materials. Without adequate supplies of raw materials and energy, modern industrial plant and equipment, transportation and communications, and a skilled and healthy labor force, the United States cannot address its national defense needs.

FEMA's basic policy functions with regard to mobilization preparedness, specifically defense production and materials stockpiling have been delegated by the President, authorities for these functions come from the National Security Act, the Defense Production Act, and the Strategic and Critical Material Stock Piling Act.

Under the National Security Act, FEMA is responsible for advising the President, on policies for industrial and civilian mobilization; the effective use of the Nation's resources for military and civilian needs; and for unifying the activities of the Federal departments and agencies engaged in production, procurement, distribution or transportation of military and civilian supplies, materials and products. The Strategic and Critical Materials Stock Piling Act authorizes the national defense stockpile of strategic and critical material and the Defense Production Act authorizes the use of priorities and allocations, incentives to expand production capacity and supply and several other mobilization prepardeness programs.

In Executive Order 10480 which implements the Defense Production Act, the President has specifically charged FEMA with the responsibility for coordination of all mobilization activities of the Executive Branch of the Government, including all such activities relating to production, procurement, manpower, stabilization, and transport.

President Reagan stated in his national materials and minerals program plan on April 5, 1982, that to fulfill our basic national security objectives, the United States must be prepared to marshal the military and industrial resources to sustain an adequate warfighting capability. An integral part of this effort is an enhanced industrial mobilization capability to sustain and resupply our military forces through protracted conflict. We must assure the responsiveness and staying power of the industrial base.

The problems of the surge capacity of our industrial base and the availability of strategic materials in time of mobilization are serious. I will not repeat the specific problems because the Defense Science Board, Report on Industrial Responsiveness, the critrique of the proud spirit/rex-80 bravo exercise, and the House Armed Service Committee, Report on the Ailing Defense Industrial Base have emphasized, in great deatil, the deterioration of the industrial base and the problems in responding to a major defense mobilization. In the past year, the Department of Defense has undertaken a number of initiatives to improve the acquisition process and the responsiveness of the industrial base for surge production of selected weapon systems.

FEMA and the relevant departments and agencies are pursuing several initiatives to address these problems. I would like to highlight some of these:

ESTABLISHMENT OF THE EMERGENCY MOBILIZATION PREPAREDNESS BOARD

The people, government, and economy of the Nation must be prepared to work in concert to respond rapidly and effectively to meet national needs in the event of major peacetime and wartime emergencies. President Reagan, to insure this capability, established the Emergency Mobilization Preparedness Board (EMPB) on December 17, 1981.

In EMPB consists of the representatives of 23 key Federal departments, agencies, and executive offices at the Deputy or Under Secretary level which meets frequently to address the most urgent issues. The Chairman of the Board is the Assistant to the President for national security affairs, Judge William P. Clark.

The Board is tasked to develop for the President overall policy and a plan of action that will improve the Nation's preparedness capabilities. As an additional task, the Board is responsible for monitoring Federal agency implementation of actions in the plan. The Board has authority to resolve mobilization preparedness issues within the framework of current administration policies.

EXTENSION OF DEFENSE PRODUCTION ACT AUTHORITIES

The Defense Production Act of 1950 is one of the keystone authorities for emergency planning and preparedness and provides the basis for mobilization readiness of the Nation's industrial and material resources. Continuation of these authorities is essential to the national defense. Congress has recognized the importance of these vital authorities in reducing the time for the mobilization of the Nation's resources in an emergency and I congratulate the legislative branch for its extension of these authorities for the past 30 years.

One-year extensions of the Defense Production Act do not provide sufficient continuity for the vital defense preparedness programs authorized by this act. To meet the defense challenges of the 1980's and to demonstrate a strong commitment to ongoing programs this administration believes the Defense Production Act authorities need to be extended for 5 years.

Title I of the Defense Production Act provides authority to require priority treatment for vital defense contracts as well as authority to allocate materials and facilities for defense programs. It is under these authorities that the Departments of Commerce, Energy, and Transportation have established specific resource priority and allocation systems.

The defense priorities systems and defense materials system of the Department of Commerce provide ongoing priority and allocation programs. They are used to meet current national defense needs for essential materials and equipment, and can be expanded quickly to meet the needs of any future national defense emergency.

A corps of experienced specialists run these programs. They would be the nucleus for the rapid and efficient expansion of the priorities and allocations system in the event of future national mobilization.

These priority and allocation authorities have also been extended, under certain conditions, to contracts for materials and equipment to maximize domestic energy supplies.

One of the purposes of the Defense Production Act is to expand "productive capacity and supply beyond the levels needed to meet the civilian demand, in order to reduce the time required for full mobilization." Title III of the Defense Production Act authorizes the use of Government loans, loan guarantees, purchase commitments, and subsidy payments to achieve these goals. As I testified earlier, this authority was used successfully during the 1950's and has been used recently for the appropriation of $3 billion in fiscal year 1980 for the development of a synfuels capability.

As President Reagan indicated in his national materials and minerals program plan, the administration will rely primarily on the strategic stockpile as the principal means of providing for national defense objectives. However, analysis is ongoing to determine whether circumstances exist under which the use of title III Defense Production Act incentives would be more cost effective than stockpile purchases. FEMA is exploring projects to expand domestic production capacity.

The Defense Production Act includes other essential authorities for industrial preparedness. Title VII of the act provides authority under which representatives of industry and other interests may, with the approval of the President, enter into voluntary agreements serving defense purposes without violating the antitrust laws.

The act also includes the basic authority for the national defense executive reserve—a pool of individuals with proven executive talents who have agreed to undergo special training without salary compensation and to enter Government service if ever an emergency should require rapid mobilization.

I strongly urge that the current defense preparedness authorities and programs of the Defense Production Act be extended for 5 years which will provide evidence of a firm national commitment to improve the responsiveness of the industrial base.

AMENDMENTS TO THE DEFENSE PRODUCTION ACT

To help improve the statutory basis for mobilization preparedness, several key departments are working with FEMA to review these vital authorities and are drafting proposed administrative changes to the Defense Production Act. When these substantive changes have been reviewed by the industrial mobilization working group of the EMPB, they will be forwarded to the Congress.

RESOURCE ALLOCATION SYSTEMS

FEMA is working with the Departments of Commerce, Energy, and Transportation to insure that the specific resource priority and allocation systems for materials and equipment, energy, and civil transportation resources are capable of meeting the needs of any national defense contingency. The priorities and allocations systems have been key tools since 1950 to mobilize industrial resources in support of current military programs or expanded defense requirements in an emergency period. The defense priorities

system and the defense materials system are used to schedule production to assure timely delivery today and are capable of adapting to future materials shortages or cut-offs.

FEMA participates with the Departments of Defense and Commerce in selected training programs to help insure better utilization of the ongoing defense priorities system and the defense materials system. These systems are operated by the Department of Commerce and used to meet current national defense needs for essential goods and services.

ASSESSMENT OF INDUSTRIAL CAPACITY PROBLEMS

Assessment is a continuing process requiring appropriate resource and claimant agency support and constant modification to take into account new scenario guidance, changing economic conditions, and improved analytical capabilities. In recent months, FEMA has attempted to identify some of the most important problems and issues facing the Nation if we had to reach full mobilization status quickly—that is, fully equipping, training, and deploying all currently authorized Active and Reserve Forces within 6 months. The short run ability of the industrial base to support such a scenario is not encouraging.

A number of serious capacity and occupational shortfalls have been identified. The most obvious and well known problems are in the defense industrial base which covers military prime contractors and their major suppliers. We believe that several of the administration's initiatives, such as, tax incentives to stimulate capital investment and relieving regulatory burdens, will substantially strengthen these industries. We are currently paying special attention to several industrial sectors critical to mobilization. These sectors include: Aluminum (reduction and plant facilities); basic metal smelters and refineries (lead, zinc, copper); cobalt; ferroalloy capacity; foundries; guayule; machine tools; metal matrix composites; metal working equipment (forging equipment); platinum group materials; refactory bauxite; titanium; and vacuum melting capacity (super alloys and high alloy steels).

MACHINE TOOLS FOR MOBILIZATION

FEMA is working closely with the Departments of Commerce, Defense, and Energy and the General Services Administration to reestablish the machine tool trigger order program. The program would employ standby purchase contracts with machine tool industry members for anticipated mobilization capital equipment needs. The goal of the reestablished program would be to negotiate and place standby purchase agreements with individual machine tool manufacturers. This program would cut mobilization leadtimes by speeding delivery of machine tools essential to defense production. An interagency working group, chaired by FEMA, is identifying mobilization machine tool requirements, establishing priorities among the machine tools to be ordered, and developing proposed standby contracts.

The machine tool program offers several benefits to the Nation and the machine tool industry. First, this program would provide the United States with the fastest possible response from the ma-

chine tool industry in a national emergency through preplanning of machine tool requirements and sources. Second, it would insure cooperating companies a market during the early days of a mobilization as well as priority access to material inputs. Finally, the program when complete, would provide a current inventory of domestic machine tool producer product line capabilities.

The machine tool program was helpful to both Government and industry in the past mobilization experiences. Although not used during the Vietnam conflict, the program proved very effective during the World War II and Korean war emergencies. During the Korean war period, contracts for over 92,000 machine tools, costing $1.25 billion, were put into effect. At the close of the program after the Korean war, the Government was left with a surplus of machine tools worth about $10 million. The final cost of the program was $8 million or less than 0.7 percent of the cost of the machine tools ordered through the program.

VOLUNTARY AGREEMENTS

Title VII of the Defense Production Act provides for the granting of antitrust considerations to persons and organizations the President may ask to cooperate in solving production and distribution problems affecting the national defense. These agreements were vital in the defense buildup of the Korean war period. In January 1981, FEMA issued new standards and procedures for the use of voluntary agreements by key agencies.

Five voluntary agreements are currently in standby status. They include tanker capacity, small arms ammunition, propellants and explosives, ammunition loading and improved conventional munitions. The tanker capacity agreement is currently being revised by MARAD to meet the needs of the rapid deployment force. FEMA is working with MARAD and othe Agencies to update these standby agreements and establish additional voluntary agreements to support surge production and enhance our industrial mobilization preparedness.

MATERIALS STOCKPILING

President Reagan recognizes that a crucial aspect of any industrial mobilization capability is a secure, reliable, and sufficient supply of critical raw and processed materials. The United States and its allies are heavily reliant on imports of certain critical raw and processed materials. Thus, a long-term supply interruption could have serious consequences for U.S. and allied security by disrupting capabilities to produce military and essential civilian goods either in a declared national emergency or wartime mobilization.

On March 13, 1981, President Reagan ordered the first major stockpile acquisition in 20 years. In fiscal year 1981, the Congress provided $100 million for acquisition, and the President requested an additional $106 million for fiscal year 1982, which is currently limited by resolution to $57.6 million. Whatever level of funding is chosen through the appropriation process, the decision should insure long-range planning to facilitate acquisition-storage-site selection, site preparation, and personnel strategies.

On April 5, 1982, President Reagan reiterated the crucial role of the national defense stockpile in his National Minerals Policy Statement. The key elements of the policy are:

That the stockpile should be sufficient to meet the military, industrial, and essential civilian needs for the first 3 years of a war. (Required by statute.)

That goals reflect detailed assumptions regarding changes in a wartime civil economy, wartime foreign trade patterns, shipping losses, wartime political and economic stability of foreign nations, and alternate foreign and domestic production levels for stockpile materials.

That the scenarios be consistent with those being developed by the EMPB.

The administration will expeditiously dispose of those stockpiled materials held in excess of goals and acquire additional materials through the appropriations process. Additional materials will be acquired in keeping with budgetary constraints and other national priorities. This program demonstrates a serious commitment by this administration to enhance significantly the national security.

Two additional mechanisms, exchange and barter, are authorized for acquiring material for the stockpile. The administration will seek cases where these are more efficient and effective mechanisms than open-market transactions.

As part of the administration's plan to use all appropriate and cost-effective means to fill stockpile deficiencies, President Reagan directed FEMA, acting through GSA and USDA, on November 24, 1981, to procure 1.6 million tons of Jamaican-type, metal-grade bauxite for the defense stockpile during fiscal year 1982. This large and cost-effective-acquisition program will be accomplished through a combination of direct cash purchase and exchange with excess materials from our stockpile by GSA, and barter using agricultural commodities with USDA. Agricultural barter to acquire needed raw materials will thus be used for the first time in almost 15 years. This barter arrangement follows from the congressional mandate contained in section 6 of the Stockpiling Act of 1979.

I appreciate the mutual interest in these vital national defense programs and look forward to working closely with the Congress in reviewing potential problems of the surge capacity of the industrial base and the availability of strategic materials for mobilization.

As you pointed out, sir, some 32 years ago the Congress with appreciable wisdom and foresight passed the Defense Production Act of 1950. Since then, the Congress has reviewed that legislation periodically and each time has found that the international situation required continuation of these authorities which are fundamental to our mobilization effort, our national defense and our national security.

For many years the Act was extended on a biannual basis. Several years ago the Congress extended the Act for a 1-year period, and recently the act has gone through extensions from 1 to 3 months while major amendments were debated.

5-YEAR EXTENSION

The authorities of title I alone are so critical to maintaining current defense production schedules that a clear signal of its significance should be sent by the Congress in extending the act for 5 years. Such action is consistent with other measures to strengthen the industrial base.

The award of multiyear defense contracts with the assurance of priorities and allocations support will serve to accelerate defense production at minimum cost to the taxpayers. Our industrial base will be enhanced and the potential for surging production in an emergency will be strengthened. I strongly support S. 2375 for a 5-year extension of the act.

On December 17, 1981, President Reagan established the Emergency Mobilization Preparedness Board to insure the capability of the people, the government and the economy to respond rapidly and efficiently to meet national needs in the event of major peacetime and wartime emergencies. The Board was tasked with developing for the President an overall policy and plan of action that will improve the Nation's preparedness capabilities. The Board is also tasked with monitoring Federal agencies' implementation of the plan.

To help improve the statutory basis for mobilization preparedness, several key departments are working with FEMA to review these vital authorities and are drafting proposed changes to the Defense Production Act. When these substantive changes have been reviewed by the Industrial Mobilization Working Group of the Emergency Mobilization Preparedness Board, we will forward these proposed changes to the Congress.

FEMA is also working with the Departments of Commerce, Energy, and Transportation to assure that specific resource priorities and allocations systems for materials and equipment, energy, and civil transportation resources are capable of meeting the needs of a national defense contingency.

The Defense Priorities System and the Defense Materials System would assure timely delivery of defense material today and provide for an orderly surge in defense production with minimal disruption in the economy.

We are continually assessing industrial capability to identify the most important problems and issues that would face our Nation if we had to reach full mobilization status quickly—that is, fully equipping, training, and deploying all currently authorized active and reserve forces within 6 months.

However, the short-run ability of the industrial base to support such a scenario is not encouraging, and a list of those critical areas in the industrial base which require special attention is included in my statement.

MACHINE TOOL TRIGGER AUDIT PROGRAM

The Departments of Commerce, Defense, Energy, the General Services Administration and FEMA are working to reestablish the machine tool trigger order program. This program pre-positions standby purchase contracts with machine tool industry members for anticipated mobilization capital equipment needs. This program

will cut mobilization lead times by speeding delivery of machine tools essential to defense production.

Under the Defense Production Act Title VII authorities, FEMA is working with the agencies in establishing voluntary agreements which allow companies to work together to meet the needs of a mobilization and to exchange proprietary data and information without being subject to antitrust consideration.

In 1981, FEMA issued new standards and procedures for the use of these voluntary agreements by the key resource agencies.

President Reagan and the Congress recognize the need for a strong resources stockpile program. On April 5th of this year, President Reagan announced the administration's National Minerals Policy. The policy reiterates the necessity of maintaining a stockpile at a level sufficient to meet the military, industrial, and essential civilian needs for the first 3 years of a war. The President's policy also emphasizes that stockpile goals reflect changes in the civil economy, foreign trade patterns, political and economic stability of foreign nations, shipping losses, and alternate foreign and domestic production levels for stockpile materials that would result from a wartime situation.

Under the direction of the President and with the authorization of the Congress, we are working to fill the stockpile deficiencies through the most appropriate and cost-effective means available.

I would like to conclude here, Mr. Chairman. I would like to thank the committee again for giving me this opportunity to testify on these initiatives. Mr. Krueger and I would be happy to answer any questions you may have.

Senator SCHMITT. Well, thank you, General. We'll be back to you in a moment.

Mr. Brady.

STATEMENT OF LAWRENCE BRADY, ASSISTANT SECRETARY FOR TRADE ADMINISTRATION, DEPARTMENT OF COMMERCE

Mr. BRADY. Mr. Chairman and members of the committee, I am pleased to have this opportunity to appear before you to support extension of the Defense Production Act (DPA).

At the outset let me stress that there is a vital and continuing need for the authority presently conferred on the President by the Defense Production Act. The act, which became law on September 8, 1950, has served to support and enhance the national security in many ways. As originally enacted, it was the authority for virtually all economic mobilization measures taken during the Korean war. Today, the act serves as the principal basis for essential support to our current national security programs and the maintenance and development of a continuing state of mobilization readiness.

Congress, industry, and this administration have expressed serious concern regarding the capability of the U.S. economy to meet a sudden surge in demand for defense production. The Defense Production Act authorities are vital to manage both the resources and industrial capacity of the United States to satisfy defense mobilization requirements.

Title I of the act authorizes the President to require industry's acceptance of and priority performance on defense contracts and orders, and to allocate materials and facilities in support of defense and energy programs.

Title III provides the President with the authority to support the expansion of the Nation's productive capacity to meet our national defense needs, should it become necessary. It includes the authority to guarantee loans to private enterprise in order to expedite performance on government contracts for materials and services needed for the national defense. It also contains authority to provide loans to private business for the expansion of capacity, for the development of technological processes, and for the production of essential materials, including the exploration, development, and mining of strategic and critical metals and minerals.

Title VII of the act provides authority under which representatives of industry and other interests may, with the approval of the President, enter into voluntary agreements serving defense purposes without violating the antitrust laws. Title VII also provides the basic authority for the National Defense Executive Reserve—a pool of individuals with proven executive ability who have agreed to undergo special training and who would be available to perform necessary federal functions in a national emergency situation involving at least the threat of armed conflict. The NDER is one of the most important elements in our efforts to develop programs which would make us capable of functioning efficiently in the event of such an emergency.

As the committee is aware, the Department of Commerce has been assigned the major responsibility for administering those aspects of the Defense Production Act which affect a large segment of American industry. These DPA activities represent a significant part of the overall mobilization responsibilities which have been assigned to the Secretary of Commerce by the President through the Federal Emergency Management Agency. They extend both to the area of support for current defense production and to the area of industrial mobilization and readiness. Within the Department of Commerce, operations under the Defense Production Act are carried out largely by the International Trade Administration's Office of Industrial Resource Administration (OIRA) with support and assistance from the Bureau of Industrial Economics. OIRA activities fall into the following six general areas:

One, administration of a system of priorities and allocations in support of national defense programs under the authority of title I of the Defense Production Act.

Two, development and maintenance of industrial mobilization plans for selected national emergency scenarios.

Three, organization and training of a cadre of industry executives and other highly qualified professionals to constitute the industrial chapter of the National Defense Executive Reserve.

Four, evaluation of industrial capacity for products and services of exceptional importance to the national security.

Five, support of the Federal Emergency Management Agency in connection with all national stockpile activities.

Six, participation with the other NATO nations in joint industrial planning activities.

The mission of each of these programs contributes to meeting the basic objective of the Defense Production Act, which is to assure the timely availability of industrial materials and products so important to a strong military readiness posture.

In short, I believe that the DPA fundamentally plays an essential role in national security planning.

In recent months we have been actively participating in the new Emergency Mobilization Preparedness Board (EMPB). The President announced its formation on December 29, 1981, to improve mobilization capabilities and interagency cooperation within the Federal Government to respond to major peacetime or war-related emergencies. The Board has been assigned lead responsibility for developing and recommending national preparedness policies.

The Board consists of representatives of 23 key Federal agencies at the Deputy Secretary or Under Secretary level, and is chaired by the Assistant to the President for National Security Affairs. Eleven working groups, each organized to address a specific functional area of mobilization planning, have been formed to support the activities of the Board.

The Industrial Mobilization Working Group, which I chair, will:

One. Assess the capability of the U.S. industrial base to surge defense production in a timely fashion, identify potential deficiencies in the industrial base, and recommend action to overcome them; and two, improve Federal planning procedures to assure the availability and efficient use of industrial resources to meet national security requirements.

There are disturbing trends with which we are confronted:

The United States presently imports about 20 percent of its mineral raw materials and exports an amount roughly equal to imports. However, for 24 of the most crucial materials, United States is more than 90 percent dependent on imports for 7 and more than 50 percent dependent on imports for an additional 13. We do have substantial quantities of these materials in the stockpile, however.

We are exposed to interruptions in supply for some of these materials because of our dependence on imports from potentially unstable regions.

Our import dependence is partly due to the declining competitiveness of our domestic industry, particularly the materials processing industries.

We have $12.5 billion in strategic stockpiles for 61 groups of material. Also, we have too much of certain materials such as silver, and the platinum-group metals need more of other materials to meet stockpile goals.

Technological innovation in new materials and processes to conserve critical materials is likely to accelerate in the future because of attractive tax incentives provided under ERTA and increased DOD spending in the area.

In developing analyses to determine what, if any, further actions are needed, the Industrial Mobilization Working Group will evaluate the many alternative approaches in reaching necessary solutions. One such alternative is:

Expanding our use of the existing authorities of title I of the Defense Production Act so we can assure the availability of production materials required for national security programs.

Because of the importance of the Defense Production Act to industrial mobilization planning, we have established a special task force of the Industrial Mobilization Working Group to assess existing DPA authorities in relations to any specific problems that may be identified. The task force consists of representatives of the Departments of Commerce, Defense, Interior, Labor, the Federal Emergency Management Agency, the Office of Management and Budget, and the National Security Council.

In view of the extraordinary economic regulatory and defense reforms already in place, further spending is not likely, however, with mounting budgetary deficits, we must be certain to select the most cost-effective alternatives with approved spending levels which meet the national security needs.

We believe the most cost-effective and deliberate approach to the revitalization of the defense industrial base is a planned and directed one which seeks and establishes specific, targeted objectives for the application of funds. It should evolve around a sound defense procurement system with stable projected requirements, multiyear contracts and funding, and sufficient long-range goals to allow U.S. industry to competitively develop the production capability to meet defense needs.

Mr. Chairman, I am prepared to respond to questions from you and other members of the subcommittee.

Senator SCHMITT. Thank you, sir, and we will have some questions in a few moments.

Next, Mr. Donnelly.

STATEMENT OF RICHARD DONNELLY, DIRECTOR, INDUSTRIAL RESOURCES, OFFICE OF RESEARCH AND ENGINEERING, DEPARTMENT OF DEFENSE, ACCOMPANIED BY JOHN E. DeBREUIL AND JOHN F. ECK

Mr. DONNELLY. Thank you, Mr. Chairman. Before beginning, I would like to introduce Mr. John DeBreuil and Mr. John Eck from my office who are here to help me answer questions this morning.

Mr. Chairman and members of the committee, I am pleased to appear today to offer the Defense Department views on the defense industrial base and the necessity for extending the Defense Production Act.

In recent months, there has been significant interest expressed on the readiness of the industrial base and its capability to respond to the increased acquisition levels of the current and future defense budgets.

When we speak of the industrial base, we refer to that industrial capacity, both in the private and public sector, necessary to produce and support the military materiel required for our defense forces. The Defense Industrial Reserve Act of 1973 stipulates that, to the extent possible, maximum reliance will be placed on the private sector of the base to support our defense needs. The act further charges the Secretary of Defense with the responsibility to maintain an essential nucleus of Government-owned plants and equipment to support defense needs in a national emergency. Thus, industrial base considerations encompass a mixture of both the public and private sectors. The incentives and degree of control ex-

95-326 O—82——3

ercised by the Defense Department over the base varies for each of these sectors.

As you are aware, we are undertaking a major effort to improve our national defense capabilities through new and expanded systems acquisitions and force modernization. I must express early, however, that we do believe the industrial base is capable of responding to the increased levels of acquisitions without causing unacceptable increases in production leadtimes or escalation of cost at this time. Although we believe our schedules can be met during peacetime, we remain concerned with the capabilities of the industrial base to respond to certain surge or mobilization requirements.

Specifically, we should take steps to assure availability for critical industrial materials currently obtained from unstable foreign sources, particularly under national emergency conditions. The U.S. imports more than half its requirements for 20 of the critical materials required. Supply disruptions of strategic commodities can be accommodated during peacetime; however, we cannot tolerate supply denials during surge or mobilization. We have found decreasing numbers of subtier contractors available for defense work. This situation clearly added to the doubling and tripling of leadtimes we were experiencing in 1980. Further, we are assessing the age and productivity of Government-owned, industrial facilities. This will certainly be a major industrial problem in any prolonged military confrontation between the United States and a possible aggressor.

Now let me provide a positive approach and explain what we are doing, what has been accomplished and how the Defense Production Act fits into our overall program.

First, let me emphasize that we believe the administration's initiatives for economic recovery will eventually foster conditions under which revitalization of many industrial sectors will occur. Since the greatest share of the defense contracting is in the private sector, we must expect profit and business stability to be the primary incentives for a viable base. Unfortunately, defense programs have not always provided these incentives. To overcome this, we are in the process of reducing the myriad of defense restrictions and practices which act as disincentives to many potential suppliers. We have increased progress payments to our contractors by 10 percent and we are structuring our contracts to permit companies to share in cost reductions resulting from productivity investments. We are selectively instituting multiyear contracting techniques to achieve overall program stability, and we have increased our funding of the overall industrial preparedness program to $3.4 billion over the next 3 years.

These actions which we have completed or have underway will substantially strengthen the industrial base. However, to mitigate the impact on defense programs while long-term initiatives are resolving overall problems, we will continue to need Defense Production Act (DPA) authorities.

The DPA is fundamental to the maintenance of the national defense. For example, we rely heavily on the title I provisions for assuring timely availability of materials and parts needed to support weapons systems production schedules. This authority is being used

continuously to resolve the day-to-day bottlenecks we experience in the production cycle.

Historically, title III authorities have been used to expand production capabilities when normal market incentives were insufficient. We are evaluating possible projects which will require the use of this authority. Title I and title III of the DPA are essential for mitigating problems involving supply of critical materials required for the production of defense systems. Therefore, we recommend the committee approve a 5-year extension of the existing DPA authorities.

In conclusion, we believe there is no simple solution to resolving all industrial base problems. However, the administration's initiatives for economic recovery, continued funding of industrial preparedness measures and prudent use of the DPA will improve the responsiveness of the industrial base. The Department of Defense requires a base which cannot only support a full military contingency, but will also pose a formidable deterrent to conflict.

This concludes my prepared statement. I will be pleased to answer any additional questions the committee may have.

Senator SCHMITT. Thank you, Mr. Donnelly.

Now, finally, Dr. Morgan, Department of Interior.

STATEMENT OF DR. JOHN D. MORGAN, CHIEF STAFF OFFICER, BUREAU OF MINES, DEPARTMENT OF THE INTERIOR

Dr. MORGAN. Mr. Chairman, ladies and gentlemen, I am delighted to have this opportunity to appear before you this morning for the purpose of providing the views of the Department of the Interior on the need for extension of the Defense Production Act. The committee's letter inviting the Department to testify inquired about the strategic mineral component of the Nation's defense industrial base and asked for information on initiatives that are being undertaken to address problem areas and the need for any legislative changes in the Defense Production Act that might be of benefit.

Extension of the Defense Production Act for a period of 5 years was strongly recommended by this administration shortly after President Reagan took office. The Defense Production Act provides the basic authority for channeling the Nation's resources to support our defense readiness program. Title I of the act authorizes priorities and allocations, title III authorizes supply expansion, and title VII authorizes voluntary agreements. These authorities were extensively employed in World War II, albeit pursuant to earlier legislation. In the Korean war under the Defense Production Act they were again of critical importance and they have continued in use in some form to this day. President Reagan has requested an increase in appropriations for the Department of Defense from $214 billion in 1982 to $257 billion in 1983. This increase will accelerate procurement of urgently needed military materiel, but such increased procurement activity may well also require increased support by the defense materials system and the defense priorities system operated under authority of title I. Further, there may well be need for additional voluntary agreements, authorized by title VII, to facilitate specific military procurement actions. Title III of

the Defense Production Act has not been used in recent years for nonfuel mineral materials and, although we do not currently have plans to use it, as indicated in President's Reagan's statement of April 5, 1982: "Analysis is now ongoing to determine whether circumstances exist under which the use of Defense Production Act incentives would be more cost-effective than stockpile purchases."

The administration has been deeply concerned about the Nation's strategic materials posture. Consequently, President Reagan early in 1981 resumed strategic stockpile procurement for the first time in two decades. However, stockpiles are static solutions most suitable for materials that cannot be produced from within our borders, in contrast to the dynamic protection afforded by viable domestic industries. Accordingly, the fundamental policy of this administration was clearly stated by President Reagan in his April 5, 1982, statement on "National Materials and Minerals Program Plan" in which he said: "It is the policy of this administration to decrease America's minerals vulnerability by taking positive action that will promote our national security, help insure a healthy and vigorous economy, create American jobs, and protect America's natural resources and environment." Toward this end the Economic Recovery Tax Act enacted last year provides substantial broad incentives for capital intensive industries as well as specific incentives for research and development. These measures, combined with the regulatory reform efforts now underway, will enhance the abilities of firms in the mineral sector to compete thereby strengthening our industrial base. Further, after extensive discussions by the Cabinet Council on Natural Resources and Environment, the President in his April 5, 1982, statement emphasized the need for improved access to the Federal lands for the purpose of exploration and development, not only for minerals, but also for multiple use of all resources. The President also emphasized the need for the Government to alert the Nation to minerals issues and to insure that national decisionmakers take into account the impact of their decisions on minerals policy. His statement further recognized the need for long-term high potential payoff research of wide generic application to improve and augment domestically available materials. The Cabinet Council on Natural Resources and Environment is monitoring minerals policy on a continuing basis and, with respect to defense planning per se, the Emergency Mobilization Preparedness Board, established on December 17, 1981, chaired by the Assistant to the President for National Security Affairs, is tasked to develop overall policy and a plan of action that will immediately improve the Nation's preparedness capabilities.

With respect to your inquiry as to the need for legislative changes in the Defense Production Act, we in the Department of the Interior believe that the basic act has served the Nation well for more than three decades. The administrative provisions are currently under review by the Federal Emergency Management Agency [FEMA], which has primary jurisdiction over the act. We are working closely with FEMA in this regard.

In conclusion, I should like to reemphasize that extension of the basic Defense Production Act for a period of 5 years is highly important. such an extension will send a clear signal of our determi-

nation to keep America strong, not only to our allies, but also to those who increasingly threaten the peace of the free world.

We are honored to have this opportunity to present our views to the committee and we stand ready to respond to such questions as you may wish to pose.

[Material accompanying Dr. Morgan's statement follows:]

NATIONAL MATERIALS
AND
MINERALS PROGRAM PLAN
AND
REPORT TO CONGRESS

LETTER OF TRANSMITTAL

To the Congress of the United States:

I am pleased to submit the National Materials and Minerals Program Plan and Report to Congress, pursuant to the National Materials and Minerals Policy, Research and Development Act of 1980.

This national minerals policy recognizes:

- the critical role of minerals to our economy, national defense, and standard of living;
- the vast, unknown and untapped mineral wealth of America and the need to keep the public's land open to appropriate mineral exploration and development;
- the critical role of government in alerting the Nation to minerals issues and in ensuring that national decision-makers take into account the impact of their decisions on minerals policy; and,
- the need for long-term, high potential payoff research activity of wide generic application to improve and augment domestically available materials.

This policy is responsive to America's need for measures to diminish minerals vulnerability by allowing private enterprise to preserve and expand our minerals and materials economy.

RONALD REAGAN

THE WHITE HOUSE, April 5, 1982.

NATIONAL MATERIALS AND MINERALS PROGRAM PLAN AND REPORT TO CONGRESS

INTRODUCTION

During the 1980 campaign, I expressed to the American people my deep concern regarding the increasing dependence of the United States and the free world upon foreign sources for strategic and critical minerals. I raised concerns regarding the state of the materials stockpile as well as government policies which have inhibited and hindered the ability of Americans to produce and supply these vital resources. I established a Strategic Minerals Task Force, which subsequently reported to me, suggesting administrative and legislative actions to address these important questions.

On March 13, 1981, I called for the expenditure of $100 million for the first major additions to the stockpile in over twenty years. $78 million went to purchase cobalt, a material which was then at less than 50 percent of our stockpile goals. At that time I indicated that I would take further action regarding strategic minerals.

I hereby transmit to the Congress my recommendations and a report on the activities to be undertaken by this Administration to reduce America's materials vulnerability. These actions do not represent, nor should they be interpreted as, the total solution to America's minerals and materials problems. Nor should all import dependence be interpreted as vulnerability. Rather, these steps will begin to focus the attention of the nation on those specific mineral availability and processing problems that are posed to our economy and our national security by dependence on insecure sources where useable substitutes are not readily available. These actions represent a serious concern and commitment, the first such Presidential commitment in nearly three decades.

On October 21, 1980, the National Materials and Minerals Policy, Research and Development Act of 1980 was signed into law. That Act mandated a report to the Congress regarding actions taken by the Administration to implement it. This report is presented in response to that mandate.

STATEMENT OF POLICY

It is the policy of this Administration to decrease America's minerals vulnerability by taking positive action that will promote our national security, help ensure a healthy and vigorous economy, create American jobs, and protect America's natural resources and environment.

LAND AVAILABILITY

Large amounts of Federal land—estimates vary from 40 percent to 68 percent—are now closed to mineral exploration and development at a time when the nation has become increasingly dependent on foreign sources for many strategically important minerals.

Although these minerals are important to our civilization, our standard of living, and our defense, less than three-tenths of one percent of the nation has *ever* been disturbed by mining. Much of our public land is highly mineralized, but large amounts of that land now lie off limits to exploration and development.

Therefore, this Administration will continue to inventory Federal land to determine the mineral availability and potential of that land, while protecting the environment and preserving for future generations those natural resource areas set aside by law for special purposes. To achieve a proper balance between wilderness and mineral needs of the American people, the Administration will seek legislation to preserve wilderness lands, to release from continuing uncertainty nonwilderness lands for multiple use, to ensure the availability of information regarding the mineral potential of wilderness areas, and to permit a reexamination of national wilderness policy in the year 2000.

Because large amounts of Federal land have been withdrawn from mineral entry by obsolete and unnecessary Executive actions, this Administration will solicit from the public recommendations on public land to be made available for exploration and development, and will focus immediate attention on those areas. In addition, this Administration will accelerate the review of lands withdrawn from mineral exploration and revoke obsolete withdrawal orders, will continue a rapid withdrawal review program for Alaska lands, and will open to mining those lands withdrawn from operation of the General Mining Laws but which are open to operation of the leasing laws.

To ensure that minerals location is considered by the Congress in future Congressional withdrawals of lands; the Executive agencies will, when appropriate, prepare and present to the Congress strategic and critical minerals impact analyses as a part of this Administration's comments on proposed future withdrawals.

The Administration is also seeking to reduce our future dependence on potentially unstable foreign sources of minerals by eliminating barriers to the development of the mineral resources of the deep seabed.

Unfortunately, the current draft Law of the Sea Treaty would create a burdensome international regulatory regime that would in effect discourage, if not prevent, deep seabed mining. Therefore, as I announced on January 29, we are seeking major revisions in the draft treaty at the current United Nations Conference on the Law of the Sea, so that the draft treaty would encourage deep seabed mining and meet other basic U.S. national interests.

MINERALS DATA

We recognize the critical role that minerals and materials play in our highly industrial economy, and the unpredictability of international events affecting the reliability of minerals supply. This Administration will therefore continue to collect minerals data and use it in monitoring trends and events affecting supply and demand. We will consult with other nations to improve the exchange of minerals information, and will do the same between Federal agencies and States, and between the public and private sectors.

RESEARCH AND DEVELOPMENT

The favorable tax incentives in the Economic Recovery and Tax Act stimulate private research and development to ensure the availability of the materials essential to the nation's economy and national defense. Any government-financed research and development activities will concentrate on long-term, high-risk, high potential payoff projects with the best chance for wide generic application to materials problems and increased productivity. Mission-specific programs of the Department of Defense are an exception to this policy. Existing Federal programs are being assessed to ensure conformity to this policy.

REGULATORY REFORM

The Administration will continue its review and reform of excessively burdensome or unnecessary regulations and statutes which adversely affect the domestic minerals industry. A summary of efforts to date is included as Appendix A.

STOCKPILE POLICY

The security of America's foreign sources of materials can no longer be ignored. The United States imports more than half of our total supplies of twenty strategic materials. This Administration has undertaken the first stockpile purchase program in twenty years. We endorse the policy that the stockpile should be sufficient to meet military, industrial, and essential civilian needs in support of the national defense in a crisis.

To achieve this goal, the Administration will seek Congressional approval to sell the excess reserves of materials currently in the stockpile. We are seeking Congressional appropriations to acquire necessary stockpile materials. We will use exchanges and barter to acquire additional stockpile materials when in the best interest of the country.

We will direct a panel of experts to review the quality of materials in the stockpile and recommend such actions as may be necessary to ensure the quality of the stockpile. Finally, this Administration will rely primarily upon purchases on the open market to build the Nation's stockpile necessary for the national defense and national security.

CABINET COUNCIL ON NATURAL RESOURCES AND ENVIRONMENT

Strategic and critical material issues concern many Federal departments and agencies. During the course of the Cabinet review, approximately twenty governmental bodies were involved in various aspects of the issue. There is a clear need for coordinated and focused attention to ensure the full and complete implementation of a national materials policy and the capability of the United States to address and respond to materials problems, particularly where the national security is concerned.

The involvement of numerous Federal agencies in the materials issue reflects both the breadth of the issue, not only in the government but in the economy, as well as the existence throughout government of statutorily assigned missions and responsibilities which relate to materials policy.

It is therefore the position of this Administration that national materials policy will be coordinated through the Cabinet Council on Natural Resources and Environment. This will ensure high level consideration of important materials policy issues on a timely basis with the capability of prompt action on such issues by the President. The Cabinet Council requires minimum administrative staff, relying for detailed analysis upon the various agencies and departments which have ultimate statutory responsibility for implementation.

95-326 O—82——4

LAND AVAILABILITY

BACKGROUND

Federal lands, totaling some 734 million acres, represent a vast, largely undeveloped storehouse of resources that are important to the nation's welfare. Among the most significant of these resources are minerals, particularly those of strategic importance to economic and national defense goals. Increasing amounts of Federal land have been closed to mineral exploration and development while dependence on foreign sources has grown and the security of supply from some areas has been questioned.

The use of Federal lands has been restricted for a variety of reasons by various mechanisms over a number of years. The majority of such restrictions have been imposed by Congressional action or formal Executive withdrawals, but there are also segregations of Federal land arising from administrative actions that amount to "de facto" withdrawals.

In 1980, the Bureau of Land Management promulgated surface management regulations which prevent undue degradation of public lands by mining activities. These regulations, authorized by the Federal Land Policy and Management Act (FLPMA), (similar regulations for national forests were promulgated by the U.S. Forest Service in 1974) make many of these past "protective" withdrawals unnecessary.

Until passage of FLPMA, authorities and administrative responsibility for Executive withdrawals were not clear, and among the consequences were a welter of overlapping withdrawals, lack of any central record of withdrawn lands, and an accumulation of obsolete or otherwise unnecessary withdrawals. FLPMA required a review of certain withdrawals, to be completed by 1991, revoking those that are not ". . . consistent with the statutory objectives of the programs." All types of withdrawals for other agencies, and withdrawals from mining and mineral leasing for national forests and land administered by the Bureau of Land Management, are to be reviewed.

New mineral deposits will not be found unless the private sector looks for them. It is to the nation's advantage to encourage this search. Government has a responsibility as owner of most of our better mineral lands to minimize unnecessary restrictions that limit that search. Economic use of our natural resources allows decisions to be based on full information of all values that are involved. Preservation of wilderness areas, for example, is an important goal that must be balanced against others, such as the national security.

ISSUES AND ACTIONS

1. Under the terms of the Wilderness Act of 1964, significant Federal acreage (about 13 percent of all withdrawn lands) will become permanently inaccessible for mineral exploration and development, subject to valid existing rights, on January 1, 1984. While wilderness land is now open to leasing, virtually no leasing has been permitted under the discretionary authority provided. In the 1964 Act, Congress clearly intended to permit exploration of wilderness areas in the time provided. However, because of past bureaucratic resistance and the uncertainty of obtaining permission to develop, exploration has not occurred, even though minable deposits are known to exist in some areas and there are significant chances for discovery in others.

The Administration will seek legislation to withdraw from mineral appropriation and leasing all wilderness and wilderness study areas pending Executive or Congressional action until the year 2000. The legislation will permit the continuation of energy and mineral exploration activities that ensure the protection of the land values. The legislation will permit development of wilderness lands during a period of national emergency, upon a finding by the President of urgent national need. Also, the Department of the Interior will report to the Congress every five years regarding the energy and mineral potential of wilderness and wilderness study areas and the resource opportunities foregone, permitting an informed reexamination of national wilderness policy during the 106th Congress. The Administration will seek a limitation upon the period of time that public lands may be withheld as wilderness study areas, setting dates after which time, without Congressional action, those lands would revert to multiple use.

2. An unknown amount of Federal land is removed from entry by obsolete or otherwise unnecessary withdrawals. The Federal Land Policy and Management Act allows fifteen years to review previous withdrawals. Additionally, an estimated 5.6 million acres of Federal land are closed to mineral exploration by Federal applications for withdrawal which pre-date the Federal Land Policy and Management Act. The law allows these segregations to remain in effect until 1991, while new applications can segregate lands for only two years.

Millions of acres of Federal lands (from 10 to 60 million acres) are open to leasing but closed to operations under the Mining Law, which suggests that controlled mineral activity may not be inconsistent with the purpose of the withdrawals. When review is conducted, it may fail to focus on the highest priority lands, that is, those most likely to have important mineral deposits. Additionally, administrative processing of revocations is inefficient, and there is a general lack of current, accurate information on Federal land status.

The Administration will issue an invitation to the public to nominate areas of high mineral interest and use those nominations to identify "Areas of Critical Mineral Potential" as an overlay of existing land use designation in selected areas for priority withdrawal review.

The Administration will take other steps to stimulate land availability:

a. There will be an acceleration of withdrawal reviews now scheduled to be completed by the end of FY 1991.

b. All Federal agencies will perfect pre-Federal Land Policy and Management Act withdrawal applications as soon as possible; segregation of those lands will then end, absent a withdrawal order.

c. We will open to operation of the General Mining Laws those lands now withdrawn by Executive or Secretarial Order, but which are open to operation of the leasing laws; but Congressional and military withdrawals would not be affected.

d. All Federal agencies will inform promptly, and consult with, the Interior Secretary prior to any new withdrawal.

The Administration will issue "blanket" revocations for certain categories of withdrawals citing public land orders that withdrew such lands, thus saving administrative work-years and *Federal Register* publication costs while revoking an estimated 400 separate outdated withdrawals.

The Administration, in commenting on future land withdrawals, will, where appropriate, prepare and submit to Congress strategic and critical minerals impact statements to ansure informed Congressional decisionmaking. Additionally, in the annual report required by the Mining and Minerals Policy Act of 1970, the Administration will provide to the Congress a strategic and critical minerals estimate of the amount of Federal land which is administratively withdrawn from operation of the General Mining Laws, and ask Congress to consider carefully the potential impact on America's mineral needs of designating more lands for withdrawn status.

3. There has been a series of reports in recent years deploring the lack of current, accurate information regarding Federal land status and, more particularly, the availability of that land for mineral exploration. While special surveys, such as those conducted by the Office of Technology Assessment, Bennethum and Lee, and the Department of the Interior, provide some understanding of land availability and thereby some policy guidance for land use decisions in both the Executive and Legislative Branches, that information quickly becomes outdated. Thus, if the specifics of land availability are to provide the background for land use decisions, there exists a need for a system revealing the degree of availability.

The Administration will examine the state and quality of Federal land use data and the systems available for improving the inventorying and cataloging of the status of Federal land.

MATERIALS RESEARCH AND DEVELOPMENT

INTRODUCTION

Mineral resources, the basis of materials supply, are vital to defense and to a healthy economy. The entire materials cycle is a fundamental component of economic production and technological innovation. Technological innovation has always played a major role in meeting the problems of materials supply.

It is generally agreed that the United States has recently been exhibiting a lowered rate of productivity growth, and that an increased pace of technological innovation is needed. In many cases America's ability to compete with other nations in the world marketplace has been reduced because productivity has lagged behind wages, which has also contributed to inflation. As a result, the domestic minerals industry is no longer as advanced in mineral processing technology as many of America's foreign competitors.

GOVERNMENT'S ROLE

Since business enterprise is the primary engine of technological change, the driving force behind technological innovation through research and development is the expectation of a satisfactory return on invested capital. If there are circumstances, either real or perceived, which increase cost, increase the time to commercialization, increase risk or otherwise reduce the return on investment, innovation will be discouraged. Thus the first and perhaps most important requirement for materials research and development is the existence of a favorable business and political climate which encourages both the initiation of the innovative process (financing research and development activities) and the undertaking of steps leading to commercialization (applied research and development).

A critical element of materials research and development activities, and an area of traditional government support, is the basic research necessary to the development of a scientific data base. This requires close coordination between agency programs addressing supply problems and those addressing materials manufacture and performance.

In addition, government intervention in, and assistance of, technological development is appropriate only where market forces are incapable of achieving clearly defined national objectives. Thus government's attention regarding research and development activity should focus on long-term, high-risk potentially high-payoff technology that has the best chance for wide generic application.

To fulfill this role, the Administration will:

1. Create a business and political climate which will encourage private sector research and development;

2. Stimulate constructive coordination between industry and government in the area of technological innovation; and,

3. Focus and direct other government financed research and development activities on long-term, high-risk technology with the best chance for wide generic application to materials problems.

REGULATORY REFORM

As part of its effort to eliminate excessive and unnecessary regulations, the Administration will initiate an inquiry into Federal regulatory policies that discourage private materials research and development activities.

GOVERNMENT-INDUSTRY COORDINATION

The Administration will, through the Office of Science and Technology Policy in concert with each department and agency with a significant materials research and development program, direct senior officials to maintain or create effective mechanisms for constructive coordination of mineral and materials research and development. This will include both basic research and current government programs of materials substitution research.

INTERNATIONAL RESEARCH AND DEVELOPMENT

The Administration will formally establish contacts with the European Communities and other free world countries for exchange of information on materials research and development activities.

IDCA TRADE AND DEVELOPMENT PROGRAM

The Trade and Development Program (TDP) of the International Development Cooperation Agency (IDCA) is giving new emphasis to strategic minerals and metal-related development activities, in accordance with its legislative mandate. This will broaden opportunities for the U.S. private sector to participate in the development and diversification of foreign sources of supply of strategic and critical materials.

INTRAGOVERNMENTAL COORDINATION

The Administration reaffirms the Committee on Materials (COMAT), under the direction of the Federal Coordinating Council on Science, Engineering, and Technology (FCCSET) for the coordination of Federal materials and minerals research and development activities, directing:

1. Assistant Secretary-level representation from the departments and agencies concerned with minerals and materials;

2. Placement within COMAT of the Department of Defense Material Availability Steering Committee and the Interagency Materials Group.

3. Establishment of a Working Panel within COMAT to coordinate Federal research and development on essential materials;

4. Establishment of a formal mechanism within COMAT for information exchange between agency materials research and development program managers; and,

5. Policy resolution of materials research and development questions will be provided through the Cabinet Council on Natural Resources and Environment.

MINERALS AND MATERIALS DATA COLLECTION

INTRODUCTION

Increasing U.S. reliance upon foreign sources for minerals, especially those vital to a modern defense system, the unpredictability of events that could affect the reliability of mineral supplies, and the expanding role of governments in determining the flow of minerals in international trade, require that policy makers have access to adequate information and analytical systems. While a number of Federal agencies have long acquired, maintained and analyzed such data, the coverage, quality and reliability of foreign data, and the inadequate coordination of domestic data, have limited its usefulness.

The importance of mineral information has been consistently identified by every major mineral policy study commissioned by the Federal Government in the last thirty years. These studies and others have also urged better analytical capability to improve the integration of mineral concerns into the policy process.

Worldwide, it is generally agreed that the statistical reporting of minerals information by the U.S. Government is unsurpassed. Nonetheless, the complexities of other national goals which may conflict with future domestic productive capacity require improvements in data collection and analytic support. Similarly, the complexities of problems that can affect the flow of minerals in international trade, an essential element of U.S. supply, require a better understanding of the data and the impacts of policy options.

Mineral information and analysis can provide guidance on policies affecting the strategic stockpile, land use, tax and tariff, trade, investment, research and development, environmental protection, and other aspects of domestic and foreign policies.

FOREIGN MINERALS DATA AND ANALYSIS

The Administration will strengthen the Regional Resource Officer (RRO) program. The Department of the Interior will establish a formal minerals training program for all State Department personnel assigned to RRO positions, with emphasis on mining and minerals processing, marketing arrangements, and minerals policies.

The Administration will initiate discussions designed to improve the exchange of policy-oriented minerals information among market economy countries, to encourage the exchange of information on mineral investment problems, to improve the consistency of statistical reporting, and to consult on issues relating to selected strategic minerals.

DOMESTIC MINERALS DATA AND ANALYSIS

The role of the Federal Government in collecting and interpreting minerals data is recognized. While there has been some debate on whether too much or not enough data is being reported, industry has consistently urged full reporting of quantitative supply/demand data. As owner of one-third of the nation's lands, as purchaser and seller of raw materials for stockpile programs, and as law-maker affecting trade, tax, investment and environmental policies, the government has a

major impact on all levels of exploration and developoment as well as on the overall health of the mining industry.

The Administration will seek increased and improved cooperation from the private sector in responding to minerals and materials data requests.

The fragmentation of minerals/material data among many agencies of the Federal Government may inhibit location, access, and exchange of data necessary for analysis and decisionmaking. The Administration will examine the United States Government's minerals and materials data system, ensuring the full participation of all affected departments and agencies. The review will:

1. Identify possible data gaps, duplications, inconsistencies, and redundancies;

2. Ascertain the adequacy of minerals and materials analysis;

3. Explore the benefits and costs of a National Minerals Information Center within the Federal Government as a central repository for material and mineral reports and information;

4. Develop a means of providing adequate protection for proprietary and classified data; and,

5. Develop a mechanism for regular briefings regarding minerals problems to the Cabinet Council on Natural Resources and Environment.

STRATEGIC AND CRITICAL MATERIALS STOCKPILE

OVERVIEW

INTRODUCTION

The United States must implement materials and minerals policy programs to ensure that America's capacity to field and sustain fighting forces in the event of war or national emergency is not curtailed by a shortage of critical raw materials. To ensure that capability, this Administration is initiating a major interdepartmental effort to improve the nation's preparedness for national mobilization.

This review will address, among other issues, potential national security impacts of shortages of strategic and critical materials. This comprehensive approach will lead to the most efficient use of national resources in the event of a national crisis, including protracted conflicts and will be coordinated at the highest levels of the Administration to ensure the vigorous pursuit of all essential elements to restore a strong and lasting foundation for national security. This comprehensive approach to revitalizing our nation's mobilization capability represents the most concerted high-level effort in the past twenty-five years. Preparedness in the area of materials and minerals availability is an important part of this effort.

EMERGENCY MOBILIZATION PREPAREDNESS BOARD

The people, government and economy of the nation must be prepared to work in concert to respond rapidly and effectively to meet national needs in the event of major peacetime and wartime emergencies.

President Reagan, to ensure this capability, established the Emergency Mobilization Preparedness Board (EMPB) on December 17, 1981.

The EMPB consists of the representatives of 23 key Federal departments, agencies, and executive offices at the Deputy or Under Secretary level, normally meeting quarterly. The Chairman of the Board is the Assistant to the President for National Security Affairs.

The Board is tasked to develop overall policy and a plan of action that will immediately improve the nation's preparedness capabilities. As an additional task, the Board is responsible for monitoring Federal agency implementation of these actions.

The Board has authority to resolve mobilization preparedness issues within the framework of current Administration policy.

The Board will perform the following functions:

1. Formulation of recommendations concerning policy for emergency mobilization preparedness.

2. Development of policy guidance documents for working groups and agencies to implement approved policies and plans of action.

3. Resolution of mobilization preparedness issues within the framework of current Administration policy.

NATIONAL DEFENSE AND CRITICAL MATERIALS

To fulfill our basic national security objectives, the U.S. must be prepared to marshal the military and industrial resources to sustain an adequate war-fighting capability. An integral part of this effort is an enhanced industrial mobilization capability to sustain and resupply our military forces through protracted conflict. We must assure the responsiveness and staying power of the industrial base.

A crucial aspect of any industrial mobilization capability is a secure, reliable, and sufficient supply of critical raw and processed materials. The United States and its allies are heavily reliant on imports of certain critical raw and processed materials. Thus, a long-term supply interruption could have serious consequences for U.S. and allied security by disrupting capabilities to produce military and essential civilian goods either in a declared national emergency or wartime mobilization.

STATUTORY AUTHORITY

As a result of the national defense and security requirement for a secure and reliable supply of critical raw materials, the Congress has provided the President with comprehensive legislative authorities to meet these defense and national security needs, including the Strategic and Critical Materials Stock Piling Act (SPA), as amended, and the Defense Production Act (DPA) of 1950, as amended. The SPA authorizes the National Defense Stockpile of strategic and critical materials. Title I of the DPA authorizes the use of priorities in fulfilling contracts for goods and services, and controlled allocation of critical materials, when necessary to meet the needs of national defense. Title III of the DPA authorizes the use of a variety of incentives to expand production capacity and supply to meet national defense needs.

DEFENSE PRODUCTION ACT

The priorities and allocations program which implements the authorities of Title I of the Defense Production Act has been a key tool for mobilizing industrial resources in support of current military programs or expanded defense requirements in an emergency period since 1950. It is used to schedule production to assure timely delivery today and is capable of adapting to future materials shortages or cut-offs. Historically, the system has been tested by shortages of such materials as cobalt, copper, nickel, steel, and titanium, resulting from strikes, war, natural disasters, international politics, and economic conditions. It can, however, only apportion materials within the United States.

KEY ELEMENTS OF THE DEFENSE MATERIALS SYSTEM AND DEFENSE PRIORITIES SYSTEM (DMS/DPS)

The DMS/DPS serves a dual purpose: it provides the means for exercising the priority and allocation authorities of the President for the purpose of promoting the national defense or maximizing domestic energy supplies; and it provides a system which can be promptly expanded to direct the industrial sector of the economy to meet the exigencies of any emergency. The

DMS DPS is a flexible system which can be promptly adapted to special problems, particularly with respect to critical materials. Set-asides, specified minimum order quantities, and specified order lead times are effective tools to assure the equitable distribution of rated orders among all producers and suppliers, and assure timely delivery to defense programs. This assurance allows more effective handling of commercial business by providing producers with information as to the limits of their rated obligations. Other instruments, such as special priorities assistance, also can be effective in assuring timely delivery of materials in tight supply.

ACTION

The Administration is committed to increased effectiveness of this system through better understanding by government and industry of the principles and advantages of the system. The Department of Defense will continue to improve its educational program extending through the major commands to the acquisition staffs, including contract administration, and its defense contractors. The Department of Commerce (Office of Industrial Resource Administration) in cooperation with Defense, will coordinate with industry, and has already held 48 DMS/DPS training sessions during this Administration.

The Administration will improve the priorities and allocations system by simplifying the regulations. Toward this end, the Department of Commerce in June 1981 published in the *Federal Register* a proposed revision of the Defense Priorities and Allocations System (DPAS) Regulation.

THE NATIONAL DEFENSE STOCKPILE

INTRODUCTION

The Strategic and Critical Material Stock Piling Act states the stockpile is ". . . to decrease and preclude, when possible, a dangerous and costly dependence by the United States upon foreign sources for supplies of (strategic and critical) materials in times of national emergency." The Act further provides that the stockpile ". . . should be sufficient to sustain the United States for a period of not less than 3 years in the event of a national emergency . . ." and ". . . is to serve the interest of national defense only and is not to be used for economic or budgetary purposes."

Stockpile goals are established by matching the requirements of military, essential civilian and basic industrial sectors in support of national defense for a three-year national emergency to an assumed level of secure supply of critical materials. The resultant shortfall determines the stockpile goal as of any given year. Figure 1 illustrates the current stockpile inventory as compared with 1980 goals. It is apparent that restructuring of the stockpile inventory is necessary because many of the materials in the stockpile are either in deficit of their goal or in excess of their goal, and some are possibly technically deficient since they were acquired as long ago as the 1950s.

To fill the 1980 goals at March 1981 prices would require purchase of additional materials valued at approximately $12.5 billion. The stockpile inventory currently contains $7.64 billion of needed materials. Excess materials are valued at approximately $4.92 billion for a total stockpile value of $12.56 billion.

As shown in figure 2, the 61 family groups and individual materials in the stockpile can be divided into two categories:

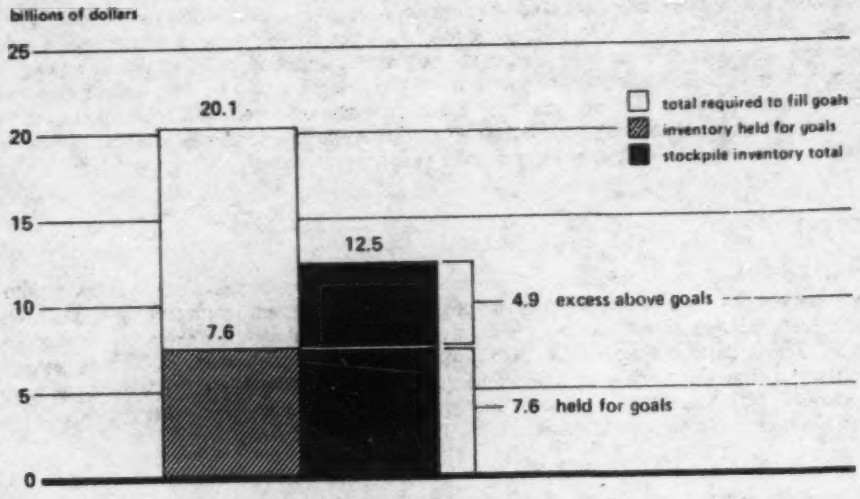


Figure 1.—Restructuring of stockpile to meet 1980 goals.

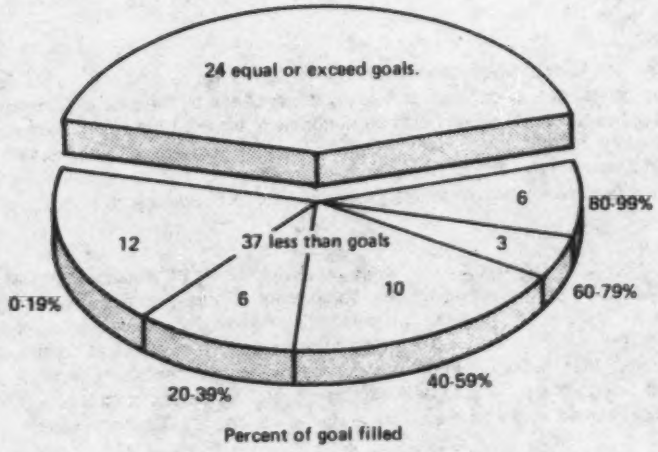


Figure 2.—Status of the 61 family groups and individual materials in the stockpile inventory toward meeting the 1980 goals.

24 groups and individual materials with inventory equal to or greater than the goals. (39%)

37 groups and individual materials with inventory less than the goal. Of these, the goals for 24 are less than 50% filled. (61%)

PLANNING

Each year, an Annual Materials Plan (AMP) is established representing a major effort by several agencies under the direction of the Federal Emergency Management Agency to develop a list of materials for stockpile acquisition or disposal. National security requirements are balanced against market constraints and fund availability.

RECENT ACTION

On March 13, 1981, President Reagan ordered the first major stockpile acquisition in twenty years. In FY 1981, the Congress provided $100 million for acquisiton, and the President requested an additional $106 million for FY 1982, which is currently limited by resolution to $57.6 million. In Appendix B is a detailed listing of the current status of the stockpile, material-by-material, including the estimated current market cost for filling the stockpile to 1980 goals, and potential receipts from selling excess commodities.

The Administration will streamline the AMP planning process by providing for:

1. Five-year planning guidance to form the basis for GSA acquisitions and disposals; and,

2. A fiscal year plan that matches annual budget ceilings, market conditions, immediate strategic requirements, and GSA purchase activities. In addition, GSA will chair a study group to determine whether there are inventory management deficiencies that can be corrected by measures such as rotation of stock and upgrading of storage sites.

FURTHER ACTION.—STOCKPILE POLICY

The Administration continues to endorse the nation's stockpile policy. The key elements of the policy are:

1. That the stockpile should be sufficient to meet the military, industrial, and essential civilian needs for the first three years of a war. (Required by statute).

2. That the war scenario shall be consistent with the scenarios being developed by the Emergency Mobilization Preparedness Board chartered by Executive Memorandum dated December 17, 1981.

3. That goals reflect detailed assumptions regarding changes in a wartime civil economy, wartime foreign trade patterns, shipping losses, wartime political and economic stability of foreign nations, and alternate foreign and domestic production levels for stockpile materials. (Assumptions were derived by a major interagency effort and endorsed by President Ford on August 6, 1976, and reaffirmed by Presidential letter dated October 10, 1977).

PACE OF ACQUISITIONS

Whatever level of funding is chosen through the appropriation process, the decision should ensure long range planning to facilitate acquisition storage site selection, site preparation, and personnel strategies.

The Administration will expeditiously dispose of those stockpiled materials held in excess of goals and acquire additional materials through the appropriations process. Additional materials will be acquired in keeping with budgetary constraints and other national priorities.

This program demonstrates a serious commitment by this Administration to enhance significantly the national security.

Two additional mechanisms, exchange and barter, are authorized for acquiring material for the stockpile. The Administration will seek cases where these are more efficient and effective mechanisms than open market transactions.

As part of the Administration's plan to use all appropriate and cost-effective means to fill stockpile deficiencies, President Reagan directed FEMA, acting through GSA and USDA, on November 24, 1981, to procure 1.6 million tons of Jamaican type metal grade bauxite for the Defense Stockpile during FY 1982. This large and cost-effective acquisition program will be accomplished through a combination of direct cash purchase and exchange with excess materials from our stockpile by GSA, and barter using agricultural commodities with USDA. Agricultural barter to acquire needed raw materials will thus be used for the first time in almost fifteen years. This barter arrangement follows from the Congressional mandate contained in Section 6 of the Stockpiling Act of 1979.

STATUS OF STOCKPILE INVENTORY—QUALITY AND FORM

In the past, questions have been raised about the quality of the stockpiled materials. In addition, the form in which material is held may not be ideal for current industrial use. Recently, steps were initiated to address the adequacy of the quality and the appropriate mix of alternative forms of existing materials.

Since the material in the stockpile is old, a careful review of the quality and form of stockpiled materials is in order. Therefore, this Administration will establish a panel, with appropriate private sector input, to review the extent of material deficiencies and to recommend remedial action, if needed. It should be noted that stockpile materials from past sales have been used with only minor difficulties.

STOCKPILE ALTERNATIVES

The stockpile is designed to meet the needs of a three-year national emergency for materials not readily available from domestic sources. Consequently, each annual ton of new domestic production reduces stockpile requirements by three tons for as long as productive capacity is available.

The U.S. has a wide variety of mineral and material resources. There is significant U.S. production of such materials as aluminum metal, beryllium, copper, iodine, mercury, molybdenum,

titanium, and lead. The U.S. also has potentially significant but undeveloped resources of non-bauxitic aluminum, cobalt, guayule (natural rubber), platinum, nickel, and titanium bearing materials. For a variety of reasons, the private sector has not found it profitable to invest in domestic production of certain critical materials. Several disincentives to investment will be significantly reduced by many of this Administration's initiatives regarding economic recovery, unnecessary regulations, streamlining procurement practices, and Federal land availability.

Title III of the Defense Production Act authorizes Federal loans at below market rates of interest, loan guarantees, price supports, and guaranteed purchase levels. While this authority was used successfully during the 1950s, it has not been used recently except for the appropriation of $3 billion in FY 1980 for the development of a synfuels capability.

This Administration will rely primarily on the strategic stockpile as the primary means of providing for national defense objectives. However, analysis is now ongoing to determine whether circumstances exist under which the use of Defense Production Act incentives would be more cost-effective than stockpile purchases.

INTERNATIONAL MINERALS POLICY COORDINATION

Most industrial free market countries are more heavily dependent upon imported minerals than the United States (the two principal exceptions are Canada and Australia), but the United States is the only industrial nation with a significant stockpile of minerals and other critical materials for national defense. Other nations have investigated economic or strategic stockpiling of certain materials, but few programs have been carried out. Therefore, this Administration will initiate and conduct periodic and *ad hoc* consultation and coordination of the strategic and security policy aspects of non-fuel minerals and associated processing capabilities among industrial nations which are consumers of key materials.

We recognize our interest in policies which would create and maintain international markets for critical materials and the need of producing and consuming countries to cooperate to their mutual trade benefit.

APPENDIX A

Regulations	Need for Reform	Status*
	LAND ACCESS REGULATIONS	
Department of Commerce—NOAA: Deep Seabed Mining Regulations	Action accomplished. Promulgation of regulations removes uncertainty as to conditions for exploration.	Final rules for exploration licenses issued 9 15 81.
Advisory Council on Historic Preservation—Protection of Historic and Cultural Properties (30 CFR Parts 800)	Existing rules could be unnecessarily extensive and inflexible.	Revised rules under development by Advisory Council on Historic Preservation.
	SAFETY AND HEALTH REGULATIONS	
Department of Labor—MSHA: Mine Safety and Health Act of 1977	The statute imposes some overly burdensome requirements. It is generally believed that statutory changes are necessary to provide relief.	Legislative alternatives are under review.
Department of Labor—MSHA: Metal/Nonmetal Safety and Health Standards (30 CFR Parts 55–57)	Many of the standards are ambiguous, outdated, duplicative, and disorganized.	Review in process; public conferences are being held.
Department of Labor—MSHA: Noise Standards (30 CFR Sections 57.5–50 and 70.500)	Noise standard needs to be revised to consider feasible and more effective alternatives to the present regulations.	Under review.
Department of Labor—MSHA: Civil Penalty Assessment Procedures (30 CFR Part 100)	More reasonable civil penalty regulations need to be developed.	Hearings have been held; still in rule making process.
Department of Labor—OSHA: Lead Standards	Means of abatement very costly. Review to focus on cost effective approaches.	ANPRM published 4 81.
Department of Labor—OSHA: Asbestos Standards	Reviewing scientific evidence on asbestos.	Under review.
	MISCELLANEOUS REGULATIONS	
Department of the Interior—BLM: Recordation of Unpatented Claims (43 CFR Part 3830)	Present regulations are claimed to impose excessive filing costs and harsh penalties for noncompliance.	Under review.
Department of the Interior—BLM: Preference Right Lease Application (43 Subpart 3521.1-1 et seq.)	Present requirements for preference right leases may delay development of valuable minerals.	Under review.
Department of the Interior—BLM: Public Land and Resources: Planning, Programming and Budgeting (43 CFR Part 1600)	Existing regulations may impede day-to-day administration of public lands and, consequently, mineral development.	Proposed rules published 11 81
Department of the Interior—BLM: Areas of Critical Environmental Concern	Identification and designation of ACECs may be broader and more inclusive than envisioned under FLPMA, unnecessarily limiting access to resources.	Guidance being reconsidered.
Department of the Interior—FWS: Endangered Species Act Rules (50 CFR Chs. I and II)	Review is evaluating changes in statute, regulations, and management practices.	Under review by Presidential Task Force on Regulatory Relief.
Department of the Interior—FWS: Fish and Wildlife Coordination Act (50 CFR Part 410)	Review is evaluating changes in statute, as well as regulatory and management practices.	Under review by Presidential Task Force on Regulatory Relief.

Unless specifically noted, review is conducted by the designated agencies, at their initiative, subject to procedures described in Executive Order 12291.

APPENDIX A

Regulations	Need for Reform	Status*
	ENVIRONMENTAL REGULATIONS	
Corps of Engineers—Clean Water Act: Section 404 Dredge and Fill Permit	Review focuses on changes in statute, regulations, and practices necessary for more cost effective attainment of environment goals.	Under review by Presidential Task Force on Regulatory Relief.
Environmental Protection Agency—RCRA	Overly burdensome RCRA regulations could impose major costs on mining industry.	Congress ordered exemption of mining industry pending completion of three-year study. Study is now under review.
Environmental Protection Agency—Clean Water Act	Review will focus upon costs and water quality benefits of best available technology standard.	Act to be reauthorized in 1982. Standards presently under review.
The following EPA regulatory programs may be affected by the pending reauthorization of the Clean Air Act:		
PSD—Fugitive Dust	Almost all western surface mines are constrained.	Appeal pending in U.S. Court of Appeals for District of Columbia.
Class I Visibility Protection/Integral Vistas	Regulations could block surface mining within view of national parks or wilderness areas.	Under review
CAA Exemption for Nonferrous Smelters (Section 119)	Exemption expires 1/1/88. Could substantially increase control costs in 1988 and shut down some smelters.	Additional nonferrous smelter orders to carry beyond the two five-year postponements allowed by the present statute have been proposed.
National Ambient Air Quality Standards (particulates, SO_2)	Existing standards may be based on inadequate scientific data.	Under review

* Unless specifically noted, review is conducted by the designated agencies, at their initiative, subject to procedures described in Executive Order 12291.

APPENDIX B

National Defense Stockpile Policy Division
Federal Emergency Management Agency

Comparison of Inventory to FEMA Goals

	Inventory March 81 (Units)	FEMA Goals (Units)	Excess or Deficit (Units)	Excess or Deficit ($1.000)	Value of Deficit ($1.000)	Value of Excess ($1.000)
Alumina-ST	0.	0.	0.	0.	0.	0.
Aluminum-ST	1,733.	700.000.	-698.267.	-1.061.301.	-1.061.301.	0.
Bauxite, Metal Grade, Jamaica-LDT	8,858.881.	21.000.000.	-12.141.119.	-457.841.	-457.841.	0.
Bauxite, Metal Grade, Surinam-LDT	5.299.596.	6.100.000.	-800.404.	-32.408.	-32.408.	0.
Aluminum Oxide, Abrasive Grain-ST	50.786.	0.	50.786.	58.912.	0.	58.912.
Aluminum Oxide, Fused Crude-ST	249.867.	0.	249.867.	64.965.	0.	64.965.
Bauxite, Abrasive, Grade-LCT	0.	750.000.	-750.000.	-95.250.	-95.250.	0.
Antimony-ST	40.729.	36.000.	4.729.	18.916.	0.	18.916.
Asbestos, Amosite-ST	42.533.	17.000.	25.533.	13.175.	0.	13.175.
Asbestos, Chrysotile-ST	8.793.	3.000.	5.793.	8.689.	0.	8.689.
Bauxite, Refractory-LCT	174.599.	1.400.000.	-1.225.401.	-306.350.	-306.350.	0.
Beryl Ore (11% BEO)-ST	17,987.	18.000.	-13.	-16.	-16.	0.
Beryllium Copper Master Alloy-ST	7.387.	7.900.	-513.	-5.181.	-5.181.	0.
Beryllium Metal-ST	229.	400.	-171.	-59.166.	-59.166.	0.
Bismuth-LB	2.081.298.	2.200.000.	-118.702.	-297.	-297.	0.
Cadmium-LB	6.328.809.	11.700.000.	-5.371.191.	-10.743.	-10.743	0.
Castor Oil, Sebacic Acid-LB	5.009.697.	22.000.000.	-16.990.303.	-7.985.	-7.985.	0.
Chromite, Chemical, SDT	242.414.	675.000.	-432.586.	-25.509.	-25.509.	0.
Chromite, Metallurgical, SDT	1.956.824.	3.200.000.	-1.243.176.	-159.126.	-159.126.	0.
Chromium, Ferro, High Carbon-ST	402.003.	185.000.	217.003.	150.481.	0.	150.481.
Chromium, Ferro, Low Carbon-ST	300.192.	75.000.	225.192.	295.227.	0.	295.227.
Chromium, Ferro, Silicon-ST	56.986.	90.000.	-33.014.	-24.695.	-24.695.	0.
Chromium, Metal-ST	3.763.	20.000.	-16.237.	-138.012.	-138.012.	0.
Chromite, Refractory Grade Ore-SDT	391.414.	850.000.	-458.586.	-43.268.	-43.268.	0.
Cobalt-LB Co	40.802.393.	85.400.000.	-44.597.607.	-1.114.940.	-1.114.940.	0.
Columbium Carbide Powder-LB Cb	21,372.	100.000.	-78.628.	-2.218.	-2.218.	0.
Columbium Concentrates-LB Cb	911.239.	5.600.000.	-4.688.761.	-67.097.	-67.097.	0.
Columbium, Ferro-LB Cb	598.410.	0.	598.410.	3.764.	0.	3.764.
Columbium, Metal-LB Cb	44.851.	0.	44.851.	1.776.	0.	1.776.
Copper-ST	28.444.	1.000.000.	-971.556.	-1.915.923.	-1.915.923.	0.
Cordage Fibers, Abaca-LB	0.	155.000.000.	-155.000.000.	-80.600.	-80.600.	0.
Cordage Fibers, Sisal-LB	0.	60.000.000.	-60.000.000.	-24.000.	-24.000.	0.
Diamond Dies, Small-PC	25.473.	60.000.	-34.527.	-1.553.	-1.553.	0.
Diamond, Industrial, CR. BRT.-KT	23.692.782.	22.000.000.	1.692.782.	4.317.	0.	4.317.
Diamond, Ind Stones KT	18.723.796.	7.700.000.	11.023.796.	245.550.	0.	245.550.
Feathers and Down-LBS	0.	1.500.000.	-1.500.000.	-21.825.	-21.825.	0.
Fluorspar, Acid Grade-SDT	895.350.	1.400.000.	-504.650.	-70.651.	-70.651.	0.
Fluorspar, Metallurgical Grade-SDT	294.875.	1.700.000.	-1.405.125.	-136.998.	-136.998.	0.
Graphite, Natural-Ceylon, Amo Lump-ST	5.442.	6.300.	-858.	-813.	-813.	0.
Graphite, Natural-Malagasy Crystalline-ST	17.906.	20.000.	-2.094.	-1.392.	-1.392.	0.
Graphite, Natural-Others-ST	1,933.	2,800.	-867.	-158.	-158.	0.
Iodine-LB	8.009.811.	5.800.000.	2.209.811.	15.756.	0.	15.756.
Jewel Bearings-PC	54.133.806.	120.000.000.	-65.866.194.	-63.890.	-63.890.	0.
Lead-ST	601.026.	1.100.000.	-498.974.	-359.262.	-359.262.	0.
Manganese, Battery Grade, Natural-SDT	190.864.	62.000.	128.864.	10.567.	0.	10.567.
Manganese, Battery Grade, Syn-SDT	3,011.	25.000.	-21,989.	-21.989.	-21.989.	0.
Manganese Ore, Chemical GR-SDT	220.955.	170.000.	50.955.	4.178.	0.	4.178.

APPENDIX B

National Defense Stockpile Policy Division
Federal Emergency Management Agency

Comparison of Inventory to FEMA Goals

	Inventory March 81 (Units)	FEMA Goals (Units)	Excess or Deficit (Units)	Excess or Deficit ($1.000)	Value of Deficit ($1.000)	Value of Excess ($1.000)
Manganese Ore, Metallurgical GR-SDT	2.409.377.	2.700.000.	-290.623.	-21.236.	-21.236.	0.
Manganese, Ferro, High Carbon-ST	599.978.	439.000.	160.978.	73.303.	0.	73.303.
Manganese, Ferro, Low Carbon-ST	0.	0.	0.	0.	0.	0.
Manganese, Ferro, Medium Carbon-ST	28.920.	0.	28.920.	21.950.	0.	21.950.
Manganese, Ferro, Silicon-ST	23.574.	0.	23.574.	11.551.	0.	11.551.
Manganese Metal, Electrolytic-ST	14.172.	0.	14.172.	19.841.	0.	19.841.
Mercury-FL	191.391.	10.500.	180.891.	75.070.	0.	75.070.
Mica, Muscovite BL, ST & BET-LB	5.005.704.	6.200.000.	-1.194.296.	-6.460.	-6.460.	0.
Mica, Muscovite FLM, 1st & 2nd-LB	1.273.855.	90.000.	1.183.855.	13.881.	0.	13.881.
Mica, Muscovite Split-LB	19.035.162.	12.630.000.	6.405.162.	12.810.	0.	12.810.
Mica, Phlogopite Blk-LB	16.718.	210.000.	-193.282.	-416.	-416.	0.
Mica, Phlogopite Split-LB	1.918.265.	930.000.	988.265.	988.	0.	988.
Molybdenum Disulphide-LB Mo	0.	0.	0.	0.	0.	0.
Motybdenum, Ferro-LB Mo	0.	0.	0.	0.	0.	0.
Nickel-ST Ni · Co	0.	200.000.	-200.000.	-1.400.000.	-1.400.000.	0.
Opium, Gum-AMA-LB	31.795.	0.	31.795.	6.715.	0.	6.715.
Opium, Salt-AMA LB	39.508.	130.000.	-90.492.	-52.388.	-52.388.	0.
Platinum Group Metals, Iri-TR OZ	16.991.	98.000.	-81.009.	-48.607.	-48.607.	0.
Platinum Group Metals, Pall-TR OZ	1.252.788.	3.000.000.	-1.747.212.	-244.609.	-244.609.	0.
Platinum Group Metals, Plat-TR-OZ	439.597.	1.310.000.	-870.403.	-413.440.	-413.440.	0.
Pyrethrum-LB	0.	500.000.	-500.000.	-6.125.	-6.125.	0.
Quartz Crystals-LB	2.420.838.	600.000.	1.820.838.	10.925.	0.	10.925.
Quinidine-AV OZ	1.798.762.	10.100.000.	-8.301.238.	-35.697.	-35.697.	0.
Quinine-AV OZ	2.770.214.	4.500.000.	-1.729.786.	-5.536.	-5.536.	0.
Rubber-LT	119.208.	850.000.	-730.792.	-1.055.850.	-1.055.850.	0.
Rutile-SDT	39.130.	106.000.	-66.870.	-21.732.	-21.732.	0.
Sapphire and Ruby-KT	16.305.502.	0.	16.305.502.	179.	0.	179.
Silicon Carbide, Crude-ST	80.548.	29.000.	51.548.	23.197.	0.	23.197.
Silver (Fine)-TR OZ	139.500.000.	0.	139.500.000.	1.848.375.	0.	1.848.375.
Talc, Steatite BLK & LMP-ST	1.092.	28.	1.064.	394.	0.	394.
Tantalum, Carbide Powder-LB Ta	28.688.	0.	28.688.	4.970.	0.	4.970.
Tantalum Metal-LB Ta	201.033.	0.	201.033.	28.145.	0.	28.145.
Tantalum Minerals-LB Ta	1.399.143.	8.400.000.	-7.000.857.	-812.101.	-812.101.	0.
Thorium Nitrate-LB	7.141.812.	600.000.	6.541.812.	17.990.	0.	17.990.
Tin-LT	200.112.	42.000.	158.112.	2.291.839.	0.	2.291.839.
Titanium Sponge-ST	21.465.	195.000.	-173.535.	-2.505.849.	-2.505.849.	0.
Tungsten Carbide Powder-LB W	1.921.167.	2.000.000.	-78.833.	-1.171.	-1.171.	0.
Tungsten, Ferro-LB W	840.752.	0.	840.752.	10.005.	0.	10.005.
Tungsten, Metal Powder-LB W	1.566.964.	1.600.000.	-33.036.	-459.	-459.	0.
Tungsten Ores & Concentrates-LB W	57.113.166.	55.450.000.	1.663.166.	14.769.	0.	14.769.
Vanadium, Ferro-ST V	0.	1.000.	-1.000.	-14.100.	-14.100.	0.
Vanadium Pentoxide-ST V	541.	7.700.	-7.159.	-77.955.	-77.955.	0.
Vegetable Tannin, Ches-LT	16.717.	5.000.	11.717.	6.326.	0.	6.326.
Vegetable Tannin, Queb-LT	142.691.	28.000.	114.691.	67.644.	0.	67.644.
Vegetable Tannin, Wattle-LT	16.397.	15.000	1.397.	782.	0.	782.
Zinc-ST	375.970.	1.425.000.	-1.049.030.	-894.297.	-894.297.	0.
TOTAL				-6.470.568.	-13.928.488.	5.457.921.

Senator SCHMITT. Well, thank you, gentlemen.

Senator Bentsen has testimony that he would like to be inserted in the record and without objection that will be done as though read.

[Opening statement by Senator Bentsen follows as though read:]

STATEMENT OF SENATOR LLOYD BENTSEN

Senator BENTSEN. Mr. Chairman, I appreciate this opportunity to provide testimony to your committee. The issue being considered today—extension of the Defense Production Act—is important because of the need to maintain a domestic capability to deal quickly and successfully with armed conflict involving the United States. The Defense Production Act was first passed in 1950 to assist in mobilization for the Korean war. It contains authorizations permitting the Federal Government to provide a variety of fiscal incentives, including loans, loan guarantees, and purchase and price agreements, to private firms to accelerate their production of or conversion to the production of military goods. It is the foundation of our Nation's ability to rapidly and efficiently mobilize our abundant resources to deal with foreign aggression of any type.

As a combat flyer in Europe during World War II, I know first hand of the need to insure that our full domestic production capability can be quickly mobilized to provide the enormous variety of hardware and materials needed to fight aggression. I certainly support extension of the Defense Production Act. I note that the administration has requested a 5-year extension. My own preference would be for Congress to provide for a shorter extension, say 2 years, in order to insure that a review of that act occurs before 1987.

A review in 2 years is needed because our Nation faces eminent prospects of an unprecedented peacetime buildup of our military establishment. By fiscal year 1986, defense sector outlays are projected to rise 85 percent over the actual fiscal year 1981 outlays of $160 billion. The Congress may not grant the administration complete funding for its proposed defense budgets in the years immediately ahead. Even so, it seems very likely that the demand for defense sector goods and services will rise, and that the character of the goods being used in our defense sector will undergo an unprecedented revision in the coming years. I believe Congress has an obligation to insure that the basic authorizations in the Defense Production Act are compatible with this likely buildup.

Specifically, I am concerned with the prospect that the large jump in defense outlays will impinge in a dramatic fashion on the pool of relatively scarce men and women in our society with technical job skills. I am speaking here of paraprofessionals, skilled craftsmen, and college-educated men and women with skills which take years of study and training to acquire—electronic engineers, graduate computer systems analysts, computer design specialists and repair technicians, for example.

The increasingly technical nature of contemporary weaponry places a premium on skilled technical men and women. It seems evident that the striking proposed growth in national resources de-

voted to defense production will strain the supply of such skilled men and women.

I do not doubt that, at some price or wage, all the needed computer experts and engineers can be diverted to defense work. But I have serious doubts that relative normalcy can be maintained in our civilian economy—especially in those high technology industries so vital to our foreign trade sector and to growth in productivity—if a host of skilled technical experts are shifted to defense work in the next 2 or 3 years.

Let me say before proceeding that no one knows with certainty whether or not our proposed defense buildup will create shortages in skilled occupations. It is a topic of great interest to the Defense Department and one, I believe, they are evaluating now. It is a question which badly needs answering, and, as a first order of business, I encourage this committee to include in any Defense Production Act reauthorization a requirement that the President determine whether—and what type—skill shortages nationally will be created by a defense buildup.

I must admit a bias toward the conclusion that this study would reveal that the buildup will create substantial skilled labor shortages. Indeed, there are strong straws in the wind in that regard already:

The American Electronic Association in testimony before the Joint Economic Committee last winter projected a shortage of over 30,000 electrical engineers annually by 1985—meaning that two of every three new jobs for engineers will go unfilled.

The Department of Labor maintains updated data on training capabilities and projected job openings. Last summer, the Department's data revealed that almost one-half of all projected skilled computer jobs—programers, operators, and system analysts—through 1990 will go unfilled.

Let me stress that these are projections only, and I am not one to propose that public policy be based solely on economic crystal ball gazing. But there are other more concrete and current market data suggesting that these projections may be on target. For example:

In the midst now of our worst postwar recession, the demand today for graduate engineers still outpaces supply. In fact, colleges and universities—who are at the low end of the salary scale in hiring engineering talent—report from 2,000 to 2,500 vacancies in engineering faculty alone.

The job market for graduate computer majors is so robust that the number of openings for new Ph. D.'s is six times larger than the number available. The number of master degree openings is over twice as large as the number of graduates.

These indications may not permit me or the Defense Department to assert with a great deal of confidence that our looming defense buildup will create skilled manpower shortages. Yet, we certainly cannot sit idly by and merely hope that these educated projections and market indications are erroneous or misleading.

I believe that prudence is called for. Consequently, I propose that this committee add a safeguard provision to the Defense Production Act dealing with prospective skilled labor shortages related to our defense sector buildup. Let me make one point before elaborating on this proposal. I have a deep and abiding belief in the market

process. Any shortages today or in the future in computer personnel, engineers, or other occupations will eventually be eliminated. The difficulty is that the market works slowly when we are talking about skills which take years to acquire. I for one am not willing to delay our efforts to boost our national defense until our colleges and universities crank out more electrical engineers and computer analysts. If we face a skilled jobs shortage as a consequence of improvements to national defense, then a limited and temporary Federal involvement in easing these shortages is appropriate. But I stress that any such involvement must be limited and must be cost-effective, as well.

With that last point in mind, I propose that this committee authorize establishment of a standby pilot skilled labor training program as a new component of the Defense Production Act.

This program will be standby in the sense that it will not be triggered unless the President makes a finding that his proposed defense buildup will create shortages of skilled men and women. If he makes that finding, then I propose that he be required to identify what occupations will be short-handed, and solicit competitive proposals from each State Governor for the design of cost-effective training programs in those occupations to last 1 year. A competitive solicitation has the attribute that it will encourage the development of a variety of innovative training options, permitting the President to select those which offer the best programs and which are most cost effective. In soliciting these proposals, I want to see the President stress the design of training programs which:

Place major reliance on the use of existing training capabilities, including vocational education institutions and 2- and 4-year colleges.

Place major reliance on the use of private-sector resources and participation in the design and implementation of the pilot training programs;

Stress participation of workers and management from firms likely to be involved in our defense-sector improvement efforts; and

Include provisions to provide for the training of youths as well as the retraining of experienced men and women.

Mr. Chairman, thank you for the opportunity to present this testimony.

SURVIVING LIMITED EMBARGOES

Senator SCHMITT. Gentlemen, let me ask you first of all a general question and then we will get to some specifics.

I think it's safe to say that a highly plausible—hopefully improbable, but still highly plausible—sequence of events could in the next few weeks lead to import embargoes of various strategic materials from nations that might support Argentina's position on the Falkland Islands. That could even include an interruption of supplies through the Panama Canal.

Do you believe that our current situation is such that the economy and our defense preparedness could tolerate such interruptions, General?

Mr. GIUFFRIDA. I don't think we could tolerate it for an extended period of time, Mr. Chairman.

Senator SCHMITT. You mean we have a lot of work left to be done before we're in a position to survive economically even limited embargoes from a selected group of nations?

Mr. GIUFFRIDA. I think that's been the essence of the testimony that all the witnesses have presented today, Mr. Chairman.

Senator SCHMITT. Under the present time frame of analysis and study and the like, when would you project that we might be ready to survive such limited embargoes for a significantly long period of time?

Mr. GIUFFRIDA. With the extension of the Defense Production Act and the ability to use all the authorities and time for the various working groups of the Emergency Mobilization Preparedness Board to do their thing, I'd say about 4 or 5 years.

Senator SCHMITT. Mr. Brady, do you have any comments on that subject?

Mr. BRADY. I think, Mr. Chairman, that we'd have to take a look at where the embargo is going to be imposed, because we are more vulnerable with some sets of countries than others. As to materials, it depends on what our requirements are at any one particular time.

Senator SCHMITT. Is that analysis ongoing at this time, given the severity of the current international crisis? Do we have a team sitting in some room somewhere that's trying to figure out what our vulnerabilities are to various scenarios of embargoes if the Secretary of State's herculean efforts to reach a compromise are unsuccessful?

Mr. GIUFFRIDA. That's part of stockpiling.

Senator SCHMITT. Does that happen? Is there some group of people led by some omnipotent experienced person who is putting together those scenarios and preparing the best ground that we have in case such a situation develops?

Mr. BRADY. I think Mr. Donnelly might want to discuss this. There are certainly scenarios that could be discussed. As to the level of specificity which you have directed your question to, that I can't address.

Senator SCHMITT. Mr. Donnelly.

Mr. DONNELLY. I'll make a couple comments. One would be under the situation we're in right now, there are some countries that could elect not to ship raw materials to the United States for political reasons.

Senator SCHMITT. And certain countries may elect not to allow their bottoms to be used to ship those materials, too.

Mr. DONNELLY. However, the other side of the issue is many of those countries require exports of materials to keep their economy going.

They may elect not to ship directly to the United States, but we believe once the materials get in the world economy the United States would eventually receive some supply.

With respect to your question, is there a team in existence managing this crisis from the raw-materials standpoint, I would say, not as you describe it, but there are people and some of those people are here in the room with us, who on a real-time basis look at alternative scenarios and what that means to the United States

as far as interruptions of supply of raw materials. But I'm not aware of any particular crisis team that's meeting.

Senator SCHMITT. Wouldn't it be reasonable to expect that there would be such a team pulled together, considering the gravity of the situation, that we potentially face over the Falkland Islands?

Mr. DONNELLY. I believe that under any potential military scenario there are a whole series of steps that you would go through as far as organizing emergency action teams depending on the severity of the crisis, and we do have plans and procedures for that.

Senator SCHMITT. I may be horribly naive, but when I was dealing with much more technological problems in NASA with respect to putting men on the moon and returning them safely to Earth, we had a variety of teams working at any given time on hypothetical scenarios of what to do if a certain failure or certain problem occurs and, as a consequence, we three men survived Apollo because that had been done in a very unlikely scenario, but we were ready. We already had a team pulled together that had worked the problem out on that particular one and they were—immediately, as soon as the crisis began to develop, they were there and working to find a pathway toward survival for those three men and for the mission.

I just always seem to fail to see that happen within Government and that's why I say I'm naive. I know there are other considerations, political and otherwise, that didn't exist within the Apollo program, but the complexities of the issues are no different. The number of variables were at least as great and the technique worked, and that's one of the basic reasons we had a very successful program in a very complex and frontier area.

Why wouldn't we be doing this as a matter of course when this kind of a crisis develops, particularly when we're so vulnerable? I mean, we know we're vulnerable. Your testimony all said that we were vulnerable.

EMERGENCY ACTION TEAMS

Mr. DONNELLY. John DeBreuil may want to amplify my remarks further. Within the Defense Department there are emergency action teams that can be summoned instantly on various types of crisis. There have been emergency action documents prepared for emergency responsibilities during an evolving crisis. These are specific documents that allow for better management of resource availability during emergencies within the Defense Department.

Now I would hasten to add, however, that because we went through a period of several years where the interest, as you just pointed out, in this area was waning, some of the policies and procedures needed update. Some of the emergency staffing needs to be improved. That is well underway now through the President's Emergency Mobilization Preparedness Board [EMPB] that is chaired by the Assistant to the President for National Security Affairs; and under the EMPB there are a number of working committees and Mr. Brady here, of course, chairs the working group on industrial mobilization, and there are others such as military mobilization. There's even a group on earthquakes.

The point I would like to make is, the initial objective of these various working groups is to make sure that the U.S. Government has the best possible policies and procedures in place to meet these types of crises as they occur.

Mr. BRADY. Mr. Chairman, I would just like to add one point. I would question the effectiveness of any embargoing of the United States by a group of countries at the moment partly because of what Mr. Donnelly mentioned—and I would like to stress this—the economic conditions that those countries face, the fact that over the last few years attempted embargos have not been very successful on the part of Third World countries. We're witnessing this in the case of oil at the moment.

Senator SCHMITT. It certainly was successful for a limited period of time. They achieved some significant aims during that period of time.

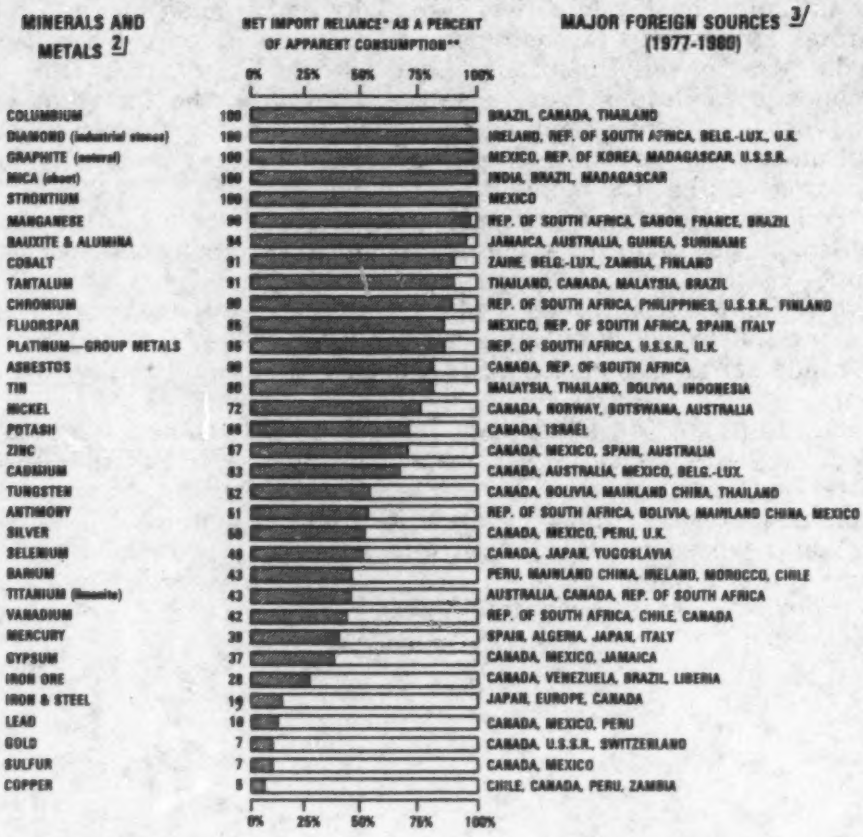
Mr. BRADY. You're right, but I think we also learned a lesson during that period. I question the effectiveness of an embargo from a fundamental standpoint as to whether they could really carry it out.

Dr. MORGAN. Mr. Chairman, I'd like to add to that, I concur in Secretary Brady's observation and I would like to say that in the Interior Department the Bureau of Mines is continuously monitoring our materials supply situation for mineral materials.

You have seen before, I'm sure, this chart which shows the import dependence——

[Copy of chart referred to follows:]

U.S. NET IMPORT RELIANCE OF SELECTED MINERALS AND METALS AS A PERCENT OF CONSUMPTION IN 1981 [1]


MINERALS AND METALS [2]
NET IMPORT RELIANCE* AS A PERCENT OF APPARENT CONSUMPTION**
0% 25% 50% 75% 100%
MAJOR FOREIGN SOURCES [3] (1977-1980)
COLUMBIUM 100 BRAZIL, CANADA, THAILAND
DIAMOND (industrial stones) 100 IRELAND, REP. OF SOUTH AFRICA, BELG.-LUX., U.K.
GRAPHITE (natural) 100 MEXICO, REP. OF KOREA, MADAGASCAR, U.S.S.R.
MICA (sheet) 100 INDIA, BRAZIL, MADAGASCAR
STRONTIUM 100 MEXICO
MANGANESE 90 REP. OF SOUTH AFRICA, GABON, FRANCE, BRAZIL
BAUXITE & ALUMINA 94 JAMAICA, AUSTRALIA, GUINEA, SURINAME
COBALT 91 ZAIRE, BELG.-LUX., ZAMBIA, FINLAND
TANTALUM 91 THAILAND, CANADA, MALAYSIA, BRAZIL
CHROMIUM 90 REP. OF SOUTH AFRICA, PHILIPPINES, U.S.S.R., FINLAND
FLUORSPAR 85 MEXICO, REP. OF SOUTH AFRICA, SPAIN, ITALY
PLATINUM—GROUP METALS 85 REP. OF SOUTH AFRICA, U.S.S.R., U.K.
ASBESTOS 80 CANADA, REP. OF SOUTH AFRICA
TIN 80 MALAYSIA, THAILAND, BOLIVIA, INDONESIA
NICKEL 72 CANADA, NORWAY, BOTSWANA, AUSTRALIA
POTASH 68 CANADA, ISRAEL
ZINC 67 CANADA, MEXICO, SPAIN, AUSTRALIA
CADMIUM 63 CANADA, AUSTRALIA, MEXICO, BELG.-LUX.
TUNGSTEN 62 CANADA, BOLIVIA, MAINLAND CHINA, THAILAND
ANTIMONY 61 REP. OF SOUTH AFRICA, BOLIVIA, MAINLAND CHINA, MEXICO
SILVER 60 CANADA, MEXICO, PERU, U.K.
SELENIUM 49 CANADA, JAPAN, YUGOSLAVIA
BARIUM 43 PERU, MAINLAND CHINA, IRELAND, MOROCCO, CHILE
TITANIUM (ilmenite) 43 AUSTRALIA, CANADA, REP. OF SOUTH AFRICA
VANADIUM 42 REP. OF SOUTH AFRICA, CHILE, CANADA
MERCURY 39 SPAIN, ALGERIA, JAPAN, ITALY
GYPSUM 37 CANADA, MEXICO, JAMAICA
IRON ORE 28 CANADA, VENEZUELA, BRAZIL, LIBERIA
IRON & STEEL 19 JAPAN, EUROPE, CANADA
LEAD 10 CANADA, MEXICO, PERU
GOLD 7 CANADA, U.S.S.R., SWITZERLAND
SULFUR 7 CANADA, MEXICO
COPPER 5 CHILE, CANADA, PERU, ZAMBIA
0% 25% 50% 75% 100%

*NET IMPORT RELIANCE = IMPORTS-EXPORTS ±ADJUSTMENTS FOR GOV'T AND INDUSTRY STOCK CHANGES.

**APPARENT CONSUMPTION = U.S. PRIMARY + SECONDARY PRODUCTION ± NET IMPORT RELIANCE.

1/ JANUARY 20, 1982 (ESTIMATE).

2/ SUBSTANTIAL QUANTITIES ARE IMPORTED FOR RUTILE, RHENIUM AND ZIRCON. DATA WITHHELD TO AVOID DISCLOSING COMPANY PROPRIETARY DATA.

3/ SOURCES SHOWN ARE POINTS OF SHIPMENT TO THE U.S. AND ARE NOT NECESSARILY THE INITIAL SOURCES OF THE MATERIAL.

BUREAU OF MINES, U.S. DEPARTMENT OF THE INTERIOR
(import-export data from Bureau of the Census)

Senator SCHMITT. I see it in my dreams—nightmares.

Dr. MORGAN [continuing]. From which these materials come. If you run your eye up and down that chart, for example, a number of these materials come from countries that are friendly to the United States——

Senator SCHMITT. A number of them come from countries that are either unfriendly or highly vulnerable, too.

Dr. MORGAN. That is true, sir.

Senator SCHMITT. The Soviet Union, South Africa, Rhodesia.

Dr. MORGAN. Not to that degree. At least a quarter of our supplies of most of these materials, if you run your eye up and down the chart of the 33 materials, come from Canada, with which we have cooperative agreements going back to 1949.

Senator SCHMITT. But you have to look at individual commodities and I don't want to get into that debate right now, and see what is our vulnerability in a particular commodity to cut off, not only vulnerability to the defense industry but in making up supplies for that industry what do we do to our domestic economy simultaneously?

Dr. MORGAN. That is absolutely correct.

Senator SCHMITT. That's the insidious threat to these embargoes.

Dr. MORGAN. That is what we do in the Bureau of Mines commodity by commodity, and we have in the Bureau our minerals availability system which lists the known deposits in this country, indicating which ones are operating and which are not, which can be expanded quickly and which cannot, which smelters and refineries and so forth are in operation, and we are prepared under title I of the Defense Production Act to implement the priorities and allocations authority in our area of responsibility covering mines, concentrators, smelters, and refineries, and we have been in this position every since World War II.

Senator SCHMITT. Yes, but isn't it true that our current capacity in mining, smelting, refining going down rather than up, and the more you have to allocate to defense, the less you have for domestic economic needs?

Dr. MORGAN. This is true except that——

Senator SCHMITT. Anaconda now ships all of their copper concentrates to Japan.

Dr. MORGAN. Some concentrates are being exported, yes, since the Anaconda smelter closed. However, the Defense Department so far is taking only a few percent of the total supply of materials such as steel, copper, aluminum, and nickel which are fundamental as the "controlled materials." On some of the more exotic materials, I think there will be a greater demand as the Defense Department steps up its procurement, which will tend to impact more on the high-temperature, corrosion-resistant, erosion-resistant materials. Many of those come also from places like Australia—the columbium and tantalum for example. You have to look at each individual material and assess our stockpile position and our import position and the sources that it comes from.

Senator SCHMITT. And the shippers?

Dr. MORGAN. That is right.

Senator SCHMITT. And the international waterways that they must traverse.

Dr. MORGAN. That's right.

Senator SCHMITT. I agree, it's a tremendously complex matrix to deal with, but it's one that it would seem to me we would be dealing with in real time, we used to say in the space program, whenever a major crisis develops, and be dealing in near real time between crises, with more than what I sense is there and a greater sense of urgency than I sense is there.

I realize you gentlemen are working very hard to do this and I realize that the stockpile contains at the minimum supposedly 7 months supply, although there's some question about the quality of the material. Certainly it has not been brought up to date in many areas. The administration has made some recommendations in that regard given the budgetary circumstances that we all must live with, but I don't think 7 months is sufficient, particularly when you look at what the demands of our domestic economy is. Our domestic economy, I believe an administration official said recently, is on its knees. It is a very strong economy fundamentally and I think we will in fact recover and stand up and do very well, but if it's hit in the near term with a set of priorities that push various commodities and materials into the defense sector, it is not going to be easy to get up and we will have other troubles.

General, you had a comment that you wanted to make?

Mr. GIUFFRIDA. There's little that I could add, Mr. Chairman, except to suggest that I think the data that this emergency response group would need are already here. The only one I had any question about possibly was the bottoms, and I think the Maritime Administration (Marad) could probably provide that, but the basic knowledge to start to make the response plan is already here.

What's being provided now after the long absence of such effort is this much discussed Emergency Mobilization Preparedness Board which I quickly state is neither omniscient nor omnipotent. It was never intended to be a panacea. As a matter of fact, when we designed it, we designed it so that if the system functioned properly, ultimately it would cease to exist. It would have fired up the mechanisms required to go on and do the work anyway.

I agree with you that the planning requirements should be worst cases? That's what we're trying to judge from our worst case scenario planning.

Senator SCHMITT. Well, I certainly detect a great deal more interest and concern over the last 2 years than over the preceding 4, but I'm still somewhat concerned that we're not getting where we need to be very fast even though progress may be made, and as Mr. Donnelly indicated, outside of DPA there's a great deal of activity, and I compliment the Department of Defense for the investment that even in this very tight budget situation they're trying to live with they are making investments in new plant capacity, in equipment, modernizing the plants, that is going to pay off great dividends in future budget years. I think there's something like $13 billion basic investment in the Defense budget for 1983 authorization in budget authority in that area, and that's an important basic investment to make.

PROCUREMENT LEADTIMES

Mr. Donnelly—and Mr. Brady may want to comment also—long leadtimes exist for the procurement of forgings and castings which are vital to the production of a wide range of important military materials and equipment. For example, largely due to bottlenecks at subcontractor levels, the leadtime for finished F–16 is increased from 28 months in 1977 to 42 months in 1980, and the other leadtimes have either doubled or even tripled since 1978. Between 1978 and 1980, the leadtime for aircraft landing gear had increased from 52 to 120 weeks, aluminum small forgings from 55 to 125 weeks, microcircuits from 25 to 51 weeks.

In addition, many of the remaining suppliers are the sole sources of critical items. Now I recognize that some of those leadtimes is a preference by industry for dealing with the private sector on orders rather than defense sector orders because of the instability of those orders and other problems dealing with receiving payment.

However, we still see that now there's only a single supplier for titanium extrusions, airframe bearings, and optics coatings, all necessary parts in major weapons systems.

What is the Defense Department, and then second the Commerce Department, doing to specifically address these kinds of problems?

Mr. DONNELLY. First I'd like to say that leadtimes that we were experiencing during the 1978–80 time period that have been mentioned have now diminished substantially. In the forging area we're probably well under half of what the leadtimes were before and, as you point out, there are different reasons for that. Probably the most important reason is that there has been in the aerospace area a decline in commercial demand for aircraft and aircraft parts caused by program completions or cancellations of orders and the like.

A second reason why the leadtimes have been reduced somewhat for DOD acquisitions is we're making more efficient use of our priorities and allocations program that I described earlier. We even went to the extent to prepare with the cooperation of the Department of Commerce training material that we have provided to industry and to our own people within the Defense Department on making better utilization of that system.

Third, I'd like to believe that another reason for the decline in leadtimes has to do with a growing awareness in the private sector, particularly at the basic industrial level, that there is a threat here to our national security that we're trying to meet.

As an example, when Afghanistan was invaded, we had many calls coming into my office from suppliers saying things like, "We really don't like defense business because of its redtape and all the other things that go with that, but if this is an emergency we want you to know that we will be there and would like to participate," and I believe there is a lot of that spirit in the basic industrial sectors of our economy and we're glad to see that.

With respect to what we are doing about the leadtimes, we have two programs running in tandem right now that I could provide more details for the record on. One, is the acquisitions improvement program which has 32 separate intiatives approved by the

Deputy Secretary of Defense that are designed to improve the way we do business with industry.

The second group of initiatives comes under the DOD action plans for improvement of industrial responsiveness. It's a triad approach with national resource being one part of the triad, the first part, defense acquisition process the second part, and the third part dealing with industrial preparedness planning guidance that we give the services.

Both of those programs have been underway for about a year. We believe they are beginning to pay off. We also have a new set of guidance to the military services which will permit more investment in plants and equipment. So that's what we're doing about it and there's always the concern that gnaws at us in the planning business that maybe we're not moving quickly enough and if we're facing an emergency what are we going to do, but we are moving and we're moving a lot faster now than we were a few years ago. We're doubling our investment, for example, in the manufacturing technology program. We will spend about $1.5 billion over the next 5 years in Mantech to take manufacturing techniques, proven in the laboratory, and translate those into production realities. So we are making progress.

Senator SCHMITT. Well, you inherited a tremendously difficult legacy. Would you provide us with a summary of the status of the implementation of the Carlucci initiatives, including whatever measures are pending before the Congress that have not been acted on? I think there are a few legislative authorities that you require.

Mr. DONNELLY. We have recently prepared a 6-month evaluation of the status of the "Carlucci Initiatives" and have attached a copy for the committee's use. We are now completing a 1-year evaluation of the process of implementing the "Carlucci Initiatives" and this report will be available to the committee when it is finalized.

[The publication submitted, titled "Department of Defense: Acquisition Improvement Task Force," dated December 23, 1981, has been retained in the committee files.]

Senator SCHMITT. To ease your burden, I think that's being done for the Defense Subcommittee for Appropriations as well and you might just see if that would be adequate. I have not seen it there either. I don't know whether it's been submitted or not.

Mr. DONNELLY. We'll put some of our people on that.

Senator SCHMITT. Mr. Brady, would you care to comment on the problem of leadtime?

INDUSTRY EVALUATIONS

Mr. BRADY. Mr. Chairman, I won't repeat what Mr. Donnelly has already indicated, but we in Commerce, in addition to what the Defense Department does by way of specifics, have a study underway, in our Bureau of Industrial Economics, on the forging industry, for instance. There are other industry evaluations that we're taking a look at.

From a macro-economic standpoint, however, I would have to point out that the Industrial Mobilization Working Group which I chair has as its primary mission determining what we're going to need for a period of time in the future. In other words, meshing on

the one hand the requirements of the Defense Department and our military buildup with the availability of resources, materials, et cetera, in our economy.

So in addition to the short range activity that I think we've all been embarked on in the last year or so since coming into office, there has been a much more fundamental progress that the President began last December when he created the EMPD and the working group that I chair. So I would hope that in the next few months, that as we move into the exercise, we will have a much, much better idea of precisely what we have. I mean, there's an unknown quantity out there and I think we all recognize that. We've got to assess that. We've got to evaluate it against the needs, and that's what we're going to be doing.

Senator SCHMITT. Dr. Morgan, I'm very sympathetic with the suggestion that you indicated in your testimony that in many instances, having a production capacity in this country is far superior than trying to depend on a stockpile, and in fact the amount of Government investment to have such a capacity for an extended period of time may well be less than trying to buy the same commodity for the stockpile, and I commend you to that analysis and hope that it will proceed fairly quickly.

In fact, just recently we have seen a precipitous dropoff in our copper production capacity for I believe both domestic and foreign competitive reasons.

Would you comment on the copper situation as you see it now in the context of this morning's discussion as well as any other commodities where you think that exercise in DPA or other authorities to assist the development of a commercial mineral industry may be in the future of that industry.

Dr. MORGAN. Sir, at the present time, the economy is in a period of recession and there is considerable excess capacity in steel, aluminum, copper, and a number of these industries. Unfortunately, in 1981, a number of the major U.S. producers have been in a poor financial status just trying to maintain production.

For example, I noticed in the 1981 report of Arco, the Atlantic Richfield Co., that when they discussed the operations of Anaconda which was part of Arco in the last year or so, that last year Anaconda did $330 million of sales and had losses of $261 million. When I read Sohio's annual report, which includes Kennicott with which they merged, they reported that Kennicott had $680 million metal mining sales with losses of $60 million, and when I looked at Gulf and Western where New Jersey Zinc had been an important constituent of Gulf and Western's national resources division, that division, mainly New Jersey Zinc, lost $41 million and they sold off New Jersey Zinc in order to establish a tax loss.

Amax had base and precious metal sales last year of $870 million and suffered losses of $9 million. Pennzoil which included Duval reported that metal mining sales were $411 million with losses of $43 million. Louisiana Land and Exploration, which includes Copper Range, reported that mining had $72 million sales and losses of $21 million. Gulf Resources closed Bunker Hill with a loss of $91 million. Inspiration, owned by Hudson Bay and Minorco in 1980 lost $18 million on sales of $178 million; and in 1981 lost $22 million despite a sale of coal assets for $10 million.

The situation in the first quarter of 1982, which we are monitoring closely, will probably be worse.

Senator SCHMITT. Now is that entirely because of the domestic economic situation or is there some dumping on the world market?

Dr. MORGAN. The dumping may be a factor, but the two biggest things that have kept the economy going in this country have been, of course, housing and motor vehicles, and at the present time I understand there are 160 million motor vehicles in service for 230 million people, which if you subtract off the children at the younger end and some of the others at the upper end that should not be driving, there's virtually one motor vehicle per person. We have 88 million housing units for 230 million people, which is a little less than three persons per housing unit. Therefore, we have, in my opinion, a rather saturated economy.

But as I pointed out in my statement, President Reagan's policy as embodied in the Economic Recovery Tax Act is intended to stimulate investment in the economy and specifically includes incentives for research and development to improve materials. As I indicated in my statement, the endeavors of the administration to remove burdensome regulations and increase access to the public lands—all of these activities in the program are intended to turn the economy around.

However, at the moment, there is for most of these materials excess capacity and not sufficient demand.

Senator SCHMITT. Do you have any indications of how much an effect the world price or dumping or other anticompetitive activities may be affecting the copper industry?

Dr. MORGAN. Well, I'm sure it is, sir, and I think we have to realize that these materials are worldwide commodities, that only a couple cents a pound will move material anywhere in the world today. It only takes 2 or 3 cents for freight, insurance, and financing to move the material. If you look at the major materials that we're talking about and compare prices as of a year ago—and keep in mind we've had about 10 percent inflation—so that even if the price today is the same as a year ago, they're in a worse shape because of the 10 percent inflation. But a year ago aluminum was 76 cents a pound and today it's 76 cents. A year ago copper was 86.5 cents and today it's 74 to 76 cents. Copper scrap, a bellwether, was 69 cents a year ago; today it's 53. Lead was 38 cents a year ago. Today it's 26 to 28.

Senator SCHMITT. Well, are the foreign suppliers selling below cost at this time?

Dr. MORGAN. That's a question that the steel people have under investigation with the Commerce Department.

Senator SCHMITT. What about copper, Mr. Brady?

Mr. BRADY. Mr. Chairman, I can't answer specifically on copper. I can, as the person who oversees the administration of the antidumping as well as the antisubsidy law, tell you that this administration is very, very aggressively taking those laws and implementing them as the Congress intended. The actions in the steel industry I believe prove that case.

Senator SCHMITT. Are you specifically investigating copper because that's just in the last—right now, there's mine after mine and smelter and smelter that's closing down in my State and many

others and the question we really need answered is, is it just an economic situation in this country or are there other problems being created for us?

Mr. BRADY. There are probably other problems being created for us. One of the benefits of the steel investigation is going to be a very in-depth look at the practices of our competitors across the board, so that we will be able to see, for instance, what kind of subsidies they give the steel industry, and extrapolate from that whether they are subsidizing exports in their entirety.

I've had extensive conversations with the ferro-alloy industry, for instance, and they're deeply concerned. We have, in addition to the dumping and the antisubsidy provisions, the national security provision in our law, section 232, of the Trade Expansion Act of 1962 which permits an investigation—which we have underway—of whether imports in the ferro-alloy area at this point are so significant as to impair the national security position of the United States. I believe that we'll have no hesitation whatsoever to recommend remedial action to the President, if we conclude that that's happening.

Senator SCHMITT. General, has any final decision been reached on the potential of exercising DPA authorities in order to stimulate a domestic cobalt industry?

Mr. GIUFFRIDA. Not yet, Mr. Chairman.

Senator SCHMITT. Is that one of the areas where it seems as if DPA authorities offer a promising potential means at relatively low cost of developing the kind of domestic capacity that Dr. Morgan was referring to?

Mr. GIUFFRIDA. Yes, sir; I think so.

DEMAND FOR SKILLED MACHINISTS

Senator SCHMITT. Mr. Donnelly and Mr. Brady again, a recent survey suggests that we face a shortage of 60,000 journeymen and machinists in our machine tool industry and predicts a 240,000 shortage by 1985. Exacerbating the problem is the fact that the average age of America's 300,000 machinists is 58 and most of them will retire during the next 8 years.

The administration's defense buildup is expected to increase demands for machinists by 8 percent or more in 1982 alone and may divert labor from civilian and commercial enterprises.

Do either of you feel there's a problem in this area and, if so, what are we doing about it?

Mr. DONNELLY. I think the first time that I saw the figure of I believe you said 240,000 by 1985 was when we were in the midst of our Defense Science Board study on industrial responsiveness which was a precursor to this action plan that we have underway. That figure of 240,000 I believe came from one of the industry associations and it also assumed some modest growth in the economy during that period of 5 years. I don't know whether that modest growth has arrived yet, so the figures may not be absolutely correct.

Senator SCHMITT. It had better be arriving. Let's assume that it is going to grow.

Mr. DONNELLY. But even if it's half or a quarter, that is a serious situation and because of that, we have opened up a dialog with the Department of Labor on issues of mutual concern. Are there better ways to target, for example, industries and job categories for additional help through the Department of Labor? So we are working on that right now.

Also, I think if the demand for skilled machinists or any other type of industrial resource is stable over a long enough period of time the economy will take care of itself and that takes us back to our defense economic modeling system and our desire to provide more planning information to industry so that we can get these problems resolved.

Mr. GIUFFRIDA. That same issue, Mr. Chairman, is being addressed in one of the working groups of the Emergency Mobilization Preparedness Board.

Senator SCHMITT. Have you found any reason why young machinists seem not to be created by the apprentice system or vocational system that we have in this country?

Mr. DONNELLY. I can answer part of that and say some of the experts that have talked to us call it a cultural problem where typically we would say to little Johnny, "When you grow up, be a doctor or a lawyer or an astronaut, but don't——

Senator SCHMITT. We've got plenty of doctors and lawyers. I don't know about astronauts.

Mr. DONNELLY. "But don't be a skilled machinist because you're going to get your hands dirty and you're not going to make much money," and we have to turn that around because it's——

Senator SCHMITT. We certainly can't use the argument of not making much money. A skilled machinist is doing pretty well these days, is he not?

Mr. DONNELLY. That's correct.

Senator SCHMITT. Mr. Brady.

Mr. BRADY. This whole thing is almost inconceivable to me from an economic standpoint because, if you believe in free market forces, something is not right when you have this kind of a shortage. I'm not that familiar with the machinist problem. I would want to go back and take a look at it. I suspect it may well have been a very high unemployment rate over a period of years perhaps as the defense industry deflated so to speak, and now we're going out and rebuilding. But even the cultural aspects that you've heard discussed are being overcome in our economy. I think some of our young people recognize that there is a diversity in life and it's not all lawyers and doctors and that's not all they want to become.

I would think that as the EMPB exercise begins and moves along that these are the kinds of issues that we would have to address or that we would address and we would be able to sit down with industry, with the machinist union and say, "Look, we project over the next 2, 5, 7, 10 years, these are going to be the requirements. How do we get together and work this out?" Not in terms of subsidization of jobs, CETAsizing any kind of a program, but simply getting out to the public to the vocational schools across the country and whatever it may be and impressing upon them what the need is going to be. After all, we do have counseling in all of our high

schools and there is a mechanism there which I think we sometimes don't use.

Senator SCHMITT. How serious do you think is the problem that my friends in both labor and management at the General Electric Plant at Albuquerque, one of the largest employer of skilled machinists in that city tell me, and that is that most of the young people who come to them for employment and training lack the basic math and comprehension skills necessary to even become a skilled machinist. You're nodding your head—I got several head nods and no answers.

Mr. BRADY. I think we all understand precisely what you're saying but, again, that can be remedied by a corporation or by an entity if it wants as part of the basic training to put individuals through a remedial course in that respect, assuming that the basic raw material is good enough to pay off in that respect.

Senator SCHMITT. So in this area you don't see that money is the answer, that the demand is part of the answer but the machine tool industry and the machinist craft unions and the machinists themselves, as well as our school system, have to join together to try to develop a cultural, educational and economic environment in which machinists and other skilled laborers are created.

Mr. BRADY. Again, Mr. Chairman, relying on market forces, one would have to say that supply and demand will equal themselves out as long as the adequate information and the required mobility exists, and I think that's——

Senator SCHMITT. Well, the market forces, unfortunately, are not affecting our school system right now and if a basic problem is that there just isn't any raw material to develop into machinists in a reasonable amount of time, then we've got a problem.

Mr. BRADY. I question whether we don't have the raw material.

Senator SCHMITT. I do, too. I think it's there, but it's much more difficult than it was apparently.

Mr. BRADY. Yes.

Senator SCHMITT. The sophistication that a skilled machinist must have today to operate the kind of automatic machine equipment and other equipment that is part of that profession is far greater than it was just 10 years ago. Is that not correct, Mr. Donnelly?

Mr. DONNELLY. It is correct, and I might make one other gratuitous remark. We looked at how Japan handles their machining needs and there a typical machinist, while he or she was being trained to operate the mechanical piece of equipment like a milling machine, the machinist is also getting training on how to program and use computer aided manufacturing. I think there's room for improvement in the way the United States where we tend to specialize in one or the other.

Senator SCHMITT. Who's responsibility is that? Is that the machinists 'craft unions or the company or both of them working together or what?

Mr. DONNELLY. Yes, sir.

Mr. BRADY. I think, Mr. Chairman, the responsibility of the Government is to try to evaluate what the needs are going to be over the foreseeable future and to educate the unions, business community, schooling system, educational system on what those needs are

going to be; and I don't think it's a question—I feel very strongly, as a matter of fact, and so does the administration—it's not a question of CETAsizing and trying to get out there and to develop an artificiality to the process.

I think the basics are there. Our job in government is to make sure that the information flows properly and that probably has not been done.

Senator SCHMITT. Do you see this in other areas of the economy besides the machine tool industry, Mr. Brady?

Mr. BRADY. Mr. Chairman, we do understand that there are some skilled labor problems in other areas. Again, this is one of the reasons that went into the creation of the Emergency Mobilization Preparedness Board. We intend to look at this in-depth in the next few months.

Senator SCHMITT. You have no current study on this skilled labor shortages?

Mr. KRUEGER. Mr. Chairman, there is a separate working group to specifically address the human resource issue which is chaired by the Department of Labor.

Senator SCHMITT. Is there any up-to-date report, interim or otherwise, on the skilled labor situation that we now face?

Mr. GIUFFRIDA. Not from that Board, Mr. Chairman. We just have our third or fourth meeting coming up now.

Senator SCHMITT. As soon as there are some preliminary data available, would you make them available to the Committee, please?

Mr. GIUFFRIDA. Yes, sir.

PRODUCTION EQUIPMENT

Senator SCHMITT. Gentlemen, most available defense production equipment is estimated to be over 20 years old in this country. For instance, according to the Defense Science Board of the 26,000 Government-owned metal cutting and metal-forming tools, over 20,000 are in excess of 20 years old. The United States has a smaller percentage of newer equipment in its machine tool inventory than any Western country, according to our information.

For example, while 60 percent of Japanese machine tools are less than 10 years old, only 31 percent of U.S. tools are that modern. Those few modern efficient production units, such as the large forges and multiaccess systems, numerically controlled airplane assembly machines are now in use on three shifts and cannot accommodate increased demand.

Do your departments concur with this analysis of the problem and what do you think we can do about it. Mr. Donnelly?

Mr. DONNELLY. I participated in the Defense Science Board study and see all this stuff coming back to meet me now. Yes, the average age of equipment owned by the Defense Department is well over 20 years. There was a period of time when we went through that we all said, "Yes, it would be nice to replace that lathe with a five-axis milling machine; yes, it would be a good idea to fix the roof of the Air Force plant so and so, but let's wait 1 more year because right now we have these very pressing problems in trying

to produce more weapons and equipment and fill the bins with parts that we need if we have to go to war."

Unfortunately, that bow wave, if I can call it a bow wave, got larger and larger and to the extent that it caused more lengthy time to produce the equipment we need and more cost because of the older equipment.

With the changes we made in our industrial preparedness planning program and the new investments that I spoke about earlier, we're beginning to turn that around, so that—and we'll have a better capability within the Defense Department to finally decide on what mix of equipment and plants are necessary to retain in the Government-owned sector of the economy. We'll have a much better handle on that as our new programs come in from the services this next year.

So I can't tell you that everything is totally where we want it, but I can say we've turned the corner on the investment idea and are placing more dollars into the program. Of course, we would rather place ourselves in a role that says the Defense Department should invest in plants and equipment only when the private sector is unwilling or unable to do it with their own assets. We believe that by keeping the private sector in operation it makes for much more viable defense.

For example, we are now in the process of negotiating final agreements on sale of one of our heavy presses we have to the using contractor. This is under an excess-to-ownership but not excess-to-requirements basis. That is, we don't need to own the press to have that capability. We believe that by putting the equipment in the private sector it will tend to keep it more modern because the private industry will tend to modernize as they go along year by year.

When we couple that with the concept of more stability through multiyear contracting, I think we're going to see some true results in the next 2 or 3 years.

Senator SCHMITT. Is it difficult to convince your peers that major machine tools ought to be retained in the Government inventories in anticipation of future needs, even though they may not be needed immediately? I have in mind the Defense Department's proposal now to reactivate the C–5 production line. Without taking a position on that particular issue or asking you personally, nevertheless, it appears that a significant portion of part of the tooling was in fact retained but that it was a narrow thing, that it was almost sold off for scrap or otherwise.

Do you agree with that philosophy, that there ought to be some minimum time in which you retain tooling?

Mr. DONNELLY. Yes, sir. I think you're probably talking more about special tooling and test equipment which is peculiar to the aircraft you described.

Senator SCHMITT. No, the production line was closed down and the question is what to do with the tooling.

Mr. DONNELLY. Yes, sir, and some of that tooling is general purpose industrial tooling which can go into a reserve and probably did. There are other categories of tooling that are specific to that particular weapon system that you have to make a choice—are you going to keep it or not? I don't think the difficulty comes with

whether we agree to retain industrial plant equipment, because we usually do for a while. The difficulty comes in whether we keep modernizing that plant equipment that we have in inventory. If you have a rotating inventory and try to reutilize equipment, that's good from the standpoint of efficiency of reutilization, but it's bad if you don't modernize it as you reutilize it. It's a question of having dollars to modernize those assets that have caused us some consternation.

Senator SCHMITT. Does anybody else care to talk about the tool problem? You generally concur with Mr. Donnelly's comments, then, I take it.

Let me ask Mr. Brady or Mr. Donnelly, is our production capacity for sophisticated modern machine tooling at an adequate level or are we dependent on foreign suppliers for the most part?

Mr. BRADY. Without asking, Mr. Chairman, that I supply some of the background for the record, I understand that we have difficulty. I know that we've been losing our productive capacity. It's a very, very serious concern to the industry. We've been very much concerned about it and that, again, is one of the areas that my operation intends to look at in-depth.

Senator SCHMITT. Well, as I walked through the GE plant not too long ago, most of the new modern machine tools were German, I believe, a couple Japanese; but there was a U.S. supplier. Is it Fairchild? Who am I thinking of? Who's the major U.S. supplier of new machine tools?

Mr. DONNELLY. Cincinnati Milacron, I believe.

Senator SCHMITT. Mr. Donnelly or Mr. Brady, would you provide a full description for the record of the programs at DOD and Commerce which are conducted under the auspices of the Defense Production Act. That can be an outline description.

Mr. DONNELLY. DOD programs under the authority of the Defense Production Act are: One, the defense materials system (DMS) and the defense priorities system (DPS) as authorized in title I—a summary of the DMS/DPS program is attached for the committee's use—and two, voluntary agreements under title VII of the DPA.

There are four of these agreements which are administered by the Department of the Army and provide for consultation among Government and private industry to coordinate the manufacture of munitions in time of emergency. The Department of Justice and the Federal Trade Commission have monitorship and approval responsibility.

[The following information was received for the record:]

PRIORITIES AND ALLOCATIONS

The Defense Materials System
and
The Defense Priorities System

Goals: The primary goals of the Priorities and Allocations Systems are: 1) to assure the timely availability of the necessary industrial resources to meet current national defense requirements, and 2) to provide a framework to facilitate rapid industrial mobilization in case of national emergency. In pursuing these goals, the Office of Industrial Mobilization attempts to minimize any disruptions to normal commercial activities.

Authority: Under Title I of the Defense Production Act of 1950, as amended, the President is authorized: 1) to require that contracts or orders relating to certain approved defense or energy programs be accepted and performed on a preferential or priority basis over all other contracts or orders, and 2) to allocate materials and facilities in such a manner as to promote approved programs.

Through a series of Executive Orders and delegations of authority, the Office of Industrial Mobilization, within the Department of Commerce, has been assigned the responsibility for developing, coordinating and administering a system of priorities and allocations to carry out the Title I authority for industrial items. The Defense Materials System and Defense Priorities System (referred to as the DMS/DPS) have been established for this purpose.

Key Elements of the Defense Materials and Defense Priorities Systems

1. Purpose: The DMS/DPS serves a dual purpose: first, to provide the means for exercising the priority and allocation authorities of the President for the purpose of promoting the national defense or maximizing domestic energy supplies, and second, to provide a System which can be promptly expanded to direct the industrial sector of the economy to meet the exigencies of any emergency.

2. Differences Between the DMS and DPS: The principal difference between the DMS and DPS, which are complementary systems, is that the DMS is a specialized system limited to the four controlled materials - copper, aluminum, steel and nickel alloys - while the DPS is a general priority system relating to products and other materials.

3. Types of Priority Ratings and Rules of Precedence: There are two types of priority ratings - DO ratings and DX ratings. All DO ratings have equal preferential value and DO rated orders take precedence over unrated orders, even over unrated orders already accepted by a supplier. All DX ratings have equal preferential value, but DX rated orders take precedence over DO rated orders, as well as all unrated orders. A DX rating is primarily used for special defense programs designated as the highest priority by the President.

   A company which accepts rated orders must schedule its operations, if possible, to fill each rated order by its required delivery date. If conflicts exist between various rated orders, a supplier must give

precedence as follows:

(a) DX rated orders take precedence over DO rated orders and unrated orders, and DO rated orders take precedence over unrated orders.

(b) Between conflicting rated orders of equal priority status (e.g., between one or more DO rated orders), precedence shall be given to the order which was received first.

(c) Between conflicting rated orders of equal priority status received on the same day, precedence shall be given to the order which has the earliest required delivery or performance date.

(d) A directive issued by the Office of Industrial Mobilization takes precedence over any DX rated orders, DO rated orders or unrated orders. It is generally used to re-schedule a company's deliveries among various competing rated orders.

4. How Priority Ratings are Obtained: Priority ratings are assigned by authorized government agencies to contracts or orders for items needed for approved programs. Contractors who receive priority ratings must, in turn, assign those ratings to orders placed with vendors for production materials needed to complete rated contracts. Vendors must also use ratings with suppliers and so on down the supply chain. Priority ratings can also be granted by OIM and other authorized government agencies for capital equipment or plant expansions needed to satisfy rated orders.

5. The Mandatory Acceptance of Rated Orders: Under the DMS/DPS, a person is required to accept all rated orders with few exceptions. These exceptions are set forth in the DMS/DPS regulations.

6. The Mandatory Extension of Rated Orders: Any person in receipt of a valid rated order is required to extend the rating to acquire supplies, equipment or materials needed to fill rated orders. Thus, the rating is automatically passed from contractor to vendor - that is from tier to tier to tier.

7. Special Priorities Assistance: Contractors experiencing difficulty in placing rated orders or in obtaining timely delivery from suppliers of products, materials, or services necessary to the performance of rated contracts or orders may request assistance from the sponsoring government agency. Such requests for assistance must be submitted on Form ITA-999, which may be obtained from the local government procurement office charged with administering the contract or from the U.S. Department of Commerce District Offices, or from the Office of Industrial Mobilization, U.S. Department of Commerce, Washington, D.C. 20230.

   If the government agency to which the request is sent is unable to resolve the difficulty, the request is forwarded to OIM for processing. OIM officials will attempt to secure timely deliveries by negotiating directly with the supplier or perhaps by locating other sources of supply.

8. Set-Aside: One of the principal means used under the DMS/DPS to assure the availability of an adequate supply of industrial resources for approved national defense and energy requirements and to provide an equitable distribution of the requirement of filling rated orders among all producers is to require producers to set aside a portion of their production for the receipt of rated orders.

   Specific set-asides are determined based on the ratio between current approved defense and energy program needs and shipments made during a base period. Once a particular company's set-aside is reached, additional rated orders may generally be refused. Those orders are then placed with another producer who has not filled its set-aside obligation.

9. Compliance and Enforcement Procedures and Violations

   (a) Investigative Authority: The Defense Production Act provides the following investigative authorities to ensure compliance with the priorities system: (1) the authority to conduct on-sight inspections of plant facilities, corporate books, papers, records, and other documents, (2) the authority to demand information necessary to determine compliance with the provisions of the DMS/DPS, and (3) the authority to issue subpoenas for records and to require testimonies.

   (b) Violations and Criminal Penalties and Civil Remedies

      (1) Violations and Criminal Penalties: In the instance of a willful violation of the DMS/DPS regulations or the Defense Production Act, the Government has the authority to institute criminal proceedings against the offender through a court of appropriate jurisdiction. Maximum penalties can be a $10,000 fine or a year in prison, or both.

      (2) Civil Remedies: The government may seek from a court of appropriate jurisdiction an injunction to prohibit the continuance of any violation of the DMS/DPS regulations or the Defense Production Act or to enforce compliance with their provisions.

Benefits of the DMS/DPS: Though following the provisions of the DMS/DPS is a legal requirement incurred by all who receive rated orders, it makes good business sense to be fully familiar with the system. For example, as contractor's vendors are required to provide production materials on a preferential basis, a greater assurance exists of obtaining materials - even in times of scarcity; there is less likelihood of having orders bumped by other rated orders; the greater assurance of receiving production materials can be an important factor in developing competitive bids for rated contracts; and the necessity of maintaining large, costly inventories can be reduced, as inventories used to fill large rated orders can be replaced with the use of ratings.

Special priorities assistance is available from OIM for those with rated orders. For example, assistance can be provided in locating suppliers, in expediting deliveries, in obtaining capital equipment, in expanding plant

facilities or in rebuilding or repairing facilities after a natural disaster.

These are only some of the benefits to be derived from properly following the requirements of the DMS/DPS. A comprehensive working knowledge of the DMS/DPS is in everyone's interest.

Cooperation with Industry: The above has described the DMS/DPS, how it works, the obligations to comply with its provisions, and the penalties for failure to do so. Yet, in the final analysis, the success of the priorities and allocations program and, thus, the status of our security rests upon industry's ability to produce the materials and equipment needed for defense and energy programs and the cooperative effort between government and industry in ensuring that programs of national importance are given the necessary preferential treatment.

In a continuing effort to provide industry with a greater awareness of the workings, obligations, and benefits of the DMS/DPS, OIM conducts seminars throughout the United States. In addition, various written materials are available concerning the priorities and allocations program. Those interested in learning more about the DMS/DPS should contact Rodney A. Joseph, Acting Director, Priorities and Allocations Division, Washington, D.C. 20230, (202) 377-2233, or John A. Richards, Acting Director, Office of Industrial Resource Administration, Washington, D.C. 20230, (202) 377-4506.

Senator SCHMITT. In addition, the committee would like you to provide for the record an analysis of your programs which are directed at improving the condition of the defense industrial base, including the total expenditures in this area and the number of personnel involved. That overlaps with one of my previous questions and the material probably has already been developed. We'd just like to have it complete for the record.

[The following information was received from the Defense Department:]

The Industrial Preparedness Program in the Department of Defense has received very low priority over the last 5 to 6 years. We are just starting to revitalize this important part of the overall defense effort. Much of what we are doing is relatively new having been developed in detail over the past 6 months. The point simply, is that it will take more time, perhaps until fiscal year 1985, before we see some of the deliverables in the overall efforts, specifically in the projects for base modernization and acquisition to reduce time and achieve the efficiencies in production we seek. The services are still identifying the total number of manyears that will be devoted to the IPP effort. With regard to funding there have been significant increases in the 5-year Industrial Preparedness Program. Our 1983 budget contains approximately $1.2 billion for industrial preparedness while our 5-year program totals a little over $7.2 billion.

Senator SCHMITT. Dr. Morgan, are you convinced that in major materials on the nightmarish diagram that you held up earlier have no domestic supply potential and in fact no North American supply potential and that we will be dependent either on imports or stockpile for our national security purposes?

Dr. MORGAN. I think taking North America, particularly Canada and the United States together, that you could probably find sources of virtually every one of these materials in that geographic area. The United States has about 3.6 million square miles. Canada has about 3.8 million. So that would be 7.4 million square miles. The Soviet Union has 8.6 million square miles and they are for all intents and purposes, although their economy is different than ours, self-sufficient in minerals. The problem is not one of geologic occurrence, but one of economic occurrence.

Senator SCHMITT. Let me interrupt you there and make sure that we don't confuse people that may read this record. The area is only generally significant. The question is, what kinds of geologic environments have existed within that area that would lead to the creation of various mineral supplies. The United States does not have in many of these minerals which relate to what we call precambian shield areas—these are the strategic minerals—not all, but many—it does not have the area of potential geologic environments that would have been conducive to deposits of many of these minerals.

Now I think we have more than we've discovered, don't get me wrong, but we are limited somewhat by geology where we may not be limited by geography.

Dr. MORGAN. Yes, sir; this is certainly true, but economically—take, for example, manganese and chromium that the country has worried about ever since World War I. If you look at the strategic materials history of World War I, they were worrying about manganese and chromium. In fact, I looked up some hearings of the Senate select committee on whether we should have a steel navy or a wooden navy of about 1886 and at that point they were concerned about the supplies of manganese. They said we had plenty of iron ore but not manganese. So for 100 years we can document the concern with manganese.

Senator SCHMITT. On the other hand, recently there is an indication there may be extensive deposits of manganese carbonates in this country that have not really been discovered before, been recognized before, and we may even beat that one.

Dr. MORGAN. Yes, sir. If I might tell just a short story if you have the time, before the start of the Korean war senior officials of the National Security Resources Board—including me—called together the newly created Air Force and said, "What's your No. 1 problem?" They said, "Columbium, we've got to have columbium for jet engines." We called in the European countries. We called in the U.S. Geological Survey and the Bureau of Mines. We had secret meetings, and the best information of the National Security Resources Board at the start of the Korean war was that we could only get 1 million pounds of columbium in the world in a year. At the start of the Korean war under the Defense Production Act, we put in a program where we said we'd pay 100 percent bonus over the then-existing price, which was $1.60 a pound for columbile-tantalite concentrates and in 3 years we had 15 million pounds in the Defense Production Act inventories and there hasn't been a shortage of columbium from then until now.

In a parallel case, at the start of the Korean war half of our tungsten came from China and the other half from the United States. The Army came in and wanted high velocity armor-piercing shells, each one of which took 7.5 pounds of tungsten. Under title III of the Defense Production Act we posted a domestic price of $63, as against $16 which had prevailed before the war, and in 2 years we quadrupled the domestic production of tungsten.

Senator SCHMITT. Even as a freshman and sophomore in high school I was following my father around with a black light looking for scheelite with that particular incentive in place.

Dr. MORGAN. Well, you know the story, and the same is true of uranium. I think if we were to post a sufficiently high price for a number of these materials under title III of the Defense Production Act, people would be surprised at how much they would find.

Senator SCHMITT. The problem, of course, is how long would it take. When we started World War II we could fool around for a year and a half or so before we really got into it and went on to be successful. Even in the Korean war we had some time that we could buy. But it's not clear that in the modern situation that time is going to be on our side.

Dr. MORGAN. That is correct, and that's why one of the thrusts of this administration is increased access to the public lands for the purposes of exploration and development of minerals.

Senator SCHMITT. At the very least assessment, so we know where we would have to go if we needed to go, is that not correct?

Dr. MORGAN. Yes, sir.

Senator SCHMITT. Without assessment, even the environment is going to suffer if we get into a crisis.

Dr. MORGAN. Yes, sir.

STOCKPILING

Senator SCHMITT. Let's talk about the stockpile a little bit, gentlemen. As you know, I've introduced a bill in the Senate which is gaining some interest here as well as around the country, in trying to depoliticize, to the degree that's possible in this town at all, the management of the stockpile. The Senate Republican Policy Committee issued a report some months ago that concluded that if no purchases or sales had been made on behalf of the stockpile for the past 20 years our country would be much closer to achieving its stockpile goals as they exist today than we are.

We are currently some $14 billion short of these objectives. The problem has been that the stockpile has never had a big enough profile in our Government to be able to withstand the pressures to buy or sell as those pressures may develop independently of the actual defense needs.

Do you agree with the assessment that the shortages we currently face are not the result of any external action by foreign governments or suppliers but are simply due to the fact that we have not well managed our stockpile? Dr. Morgan, you watch these things pretty closely.

Dr. MORGAN. Yes, sir. I have followed the stockpile ever since 1948 when I joined the National Security Resources Board.

I would like to point out that stockpiling once did occupy a very high priority. The Berlin blockade started in 1948 and the Korean war didn't start until mid-1950, and in the 1-year period following the Berlin blockade the Congress appropriated $1.3 billion for stockpiling, and this was at a time when we had nuclear superiority, air superiority, naval superiority, when all of Africa was under European control with one or two little exceptions, and when much of Latin America was the province of American companies.

The record is clear that on June 25, 1948 the Congress appropriated $350 million; June 23, 1949, $310 million; and June 30, 1949, a week later, $675 million. In contrast, sir, if I may be so bold as to

point out, the Congress just recently authorized $60 million for stockpiling. At that rate, it would only take 200 years to complete the strategic stockpile with a deficit of $12 billion. So clearly, your observation that stockpiling has not been a favored activity in recent years is absolutely correct.

Senator SCHMITT. Mr. Brady?

Mr. BRADY. Mr. Chairman, I don't know if I can add anything to that. We do have the largest role in the stockpile program.

Senator SCHMITT. It would be a little bit larger if you'd agree to convince the President that he ought to support my bill.

Mr. BRADY. As you know, the administration has not really taken a position on your bill. We have some concerns with it, specifically the fact that it takes some of the authority away from the President and puts it——

Senator SCHMITT. He can always get it back if he needs it.

Mr. Donnelly, I'm not asking for comments so much as I am just your perception of the past and whether you think we're currently on the right track relative to stockpiling.

Mr. DONNELLY. Well, I will withhold comments on S. 1982 then.

Senator SCHMITT. Well, if you want to support it, well, that would be fine.

Mr. DONNELLY. I guess we're on the right track with stockpile philosophy. As Dr. Morgan points out, although the purchases have been rather miniscule, there have been purchases, and that is the beginning of a recognition that we ought to do some prudent thinking about the imbalance the stockpile presently has. I forget the exact figures of the worth of the materials, but there's probably anywhere from $4 to $6 billion of raw materials in that inventory that we have today that are not required under any wartime scenario.

So I'm pleased to see a growing recognition of the need to regress the imbalance of the stockpile and I'm pleased to see the debate that went on within the executive branch and the Congress on alternatives to stockpiling, like more incentives in the private sector to keep private stocks or to consider the use of title III under very extraordinary conditions where it might be necessary.

I'm glad that we did not dispose of the raw materials that are required. That could have happened. It didn't. I was pleased to see that because the stockpile itself, I'm absolutely convinced, is a deterrent to conflict. So we're glad it's there, even though it needs to be fixed.

Mr. KRUEGER. Mr. Chairman, to amplify a little bit on Dr. Morgan's remarks, in the early 1950's, building up a stockpile was a commitment of the Government. I mean, not only the executive branch of the Government but also the legislative branch. The material authorities were passed by the Congress, extraordinary authorities, including the Defense Production Act which added to the stockpile, amendments to the Agricultural Trade Development and Trade Adjustment Assistance Act which added to the stockpile, and so forth. Basically, materials came into the stockpile through the Department of Agriculture, through the Department of State, through the Department of Defense, et cetera.

We are just now beginning to see some of that happen again. For the past 5 years various administrations have requested $700 mil-

lion for stockpile appropriations. Congress has up to now appropriated $160 million. In fact, Congress hasn't really made a formal appropriation. The $160 million is under the terms of a continuing resolution. While the administration has asked for $700 million, Congress has only come back with $160 million.

Senator SCHMITT. It sounds like a good argument for an independent commission to me.

Mr. KRUEGER. In addition to that, the President authorized for the first time in a number of years—directed, I should say—the exchange of excess stockpile materials for bauxite from Jamaica and excess agricultural material for bauxite from Jamaica. We're starting to see the use of these auxiliary authorities beyond just the formal stockpile purchases and I think that from where I sit and where I've sat for the last 6 years is that a very pleasant change.

Senator SCHMITT. How do you feel about the quality of the stockpile? We talk about the stockpile. Most people in this country think there's someplace somewhere that nobody's seen where there's this great big field and there are piles of minerals or metals sitting out there that represent the 7.6 billion dollars' worth of material on hand. Is it quality material?

Mr. KRUEGER. Most of the material, I believe, is of exceptional quality. There may be some materials which were purchased 20 or 30 years ago where technological change has overtaken the materials as originally purchased.

Senator SCHMITT. So something that's been missing is management so that quality stays, that you not only keep the goal but you stay quality commensurate with current technology and current need.

Mr. KRUEGER. FEMA has been undergoing negotiatings with the National Material Advisory Board to look at this question and in particular, at those materials which may have become obsolete because of change of technology and use. In that case we would have to look for ways of upgrading those materials, but the substantial portion of the common materials in the stockpile is at least of the grade normally used by industry, and some of it exceeds that.

Senator SCHMITT. What about refining capacity? Do you all analyze refining capacity and related capacities in addition to the stockpile?

Mr. KRUEGER. To the extent that we lose refining capacity, we either end up increasing our stockpile goal or if we're talking ferro alloys it's now stockpiling a more expensive form of the basic material. In addition to that, if you use nonferro smelting capacity, such as copper and lead, not only are you losing the capacity to process the basic raw material, but you're losing the capacity to recover secondary materials. To the extent that these minor materials are not recovered here in the United States, we have to look at the stockpile for that as well.

Senator SCHMITT. Give an example. Are you talking about molybdenum as a byproduct of copper?

Mr. KRUEGER. Or indium or rhenium or a number of minor materials, germanium, gallium, all of which are normally recovered as byproducts of the nonferrous smelters. To some extent, things like cadmium as well.

Senator SCHMITT. Well, I'm impressed, gentlemen, by the perspective you have about the stockpile, but I'm also impressed about how this Administration will not be here forever. administrations have passed—we're not here forever—and had quite different attitudes toward the stockpile. The Johnson administration had a view which was quite political in various ways in the use of the stockpile, and that has continued, plus we've just made probably some errors in judgment on how to manage the stockpile, biased in part by political considerations. We sold off 40,000 tons of cobalt in the 1970's, which I think everybody would agree today was a terrible mistake, but we did it. The same happened to chromium and a few other commodities.

So the reason that I'm suggesting that we have, under certain safeguards, an independent commission, is that I think that commission if structured properly can provide the Nation a great service and in time of emergency the management of a stockpile can still be directly under the auspices of the President and that's the best time to have it there.

Gentlemen, I appreciate your time. We may have some questions for the record. I think other Senators may also have some statements to include in the record and they will be included without objection. Thank you very much.

[Whereupon, at 11:55 a.m., the hearing was adjourned.]

[The following information was received for the record:]

U.S. DEPARTMENT OF COMMERCE,
INTERNATIONAL TRADE ADMINISTRATION,
Washington, D.C. May 12, 1982.

Hon. HARRISON SCHMITT,
Committee on Banking, Housing, and Urban Affairs,
U.S. Senate,
Washington, D.C.

DEAR SENATOR SCHMITT: Enclosures A and B are in response to your request at the hearing on April 20, 1982, for additional information for the record.

Enclosure A contains a description of the Department of Commerce programs that are conducted under the Defense Production Act.

Enclosure B describes programs directed at improving the condition of the defense industrial base.

Thank you for your interest.

Sincerely,

LAWRENCE J. BRADY,
Assistant Secretary for Trade Administration.

Enclosures.

ENCLOSURE A: DEPARTMENT OF COMMERCE PROGRAMS CONDUCTED UNDER THE DEFENSE PRODUCTION ACT

There are three programs conducted in the Department of Commerce under authority of the Defense Production Act of 1950, as amended (50 U.S.C. App. 2071, *et seq.*) (DPA). They are:

1. PRIORITIES AND ALLOCATIONS DIVISION

Title I of the Defense Production Act of 1950, as amended, provides for establishment of a system of priorities and allocations for materials and other resources to meet defense and energy requirements. The President is authorized: (1) to require that contracts or orders relating to the national defense or to programs to maximize domestic energy supplies be accepted and performed on a preferential or priority basis over all other orders; and (2) to allocate materials and facilities in such a manner as to promote the national defense.

Office of Industrial Resource Administration (OIRA)/International Trade Administration (ITA) implements this authority by assuring the preferential performance

by industry on priority rated contracts for approved programs through the Defense Priorities System (DPS), and by regulating copper, steel, aluminum and nickel alloys needed for such performance through the Defense materials Systems (DMS). These systems also are designed to be rapidly expanded during a national emergency to meet the industrial mobilization policies of the Act.

The DMS/DPS operates automatically after the defense or energy procurement agency issues a priority rated contract. All subsequent procurement documents must contain the priority rating symbol that signals the need for priority treatment in accordance with the published regulations. Such contracts and purchase orders must be accepted and, when necessary, must be given preferential scheduling of production and shipment. It is estimated that in excess of one million rated orders exist throughout industry at any given time.

In addtion, OIRA provides special priorities assistance to contractors and to the Government in support of the DMS/DPS. This assistance can include expediting of rated orders, rescheduling of rated orders and locating alternative sources of supply.

2. NATIONAL DEFENSE EXECUTIVE RESERVE (NDER)

The National Defense Executive Reserve (NDER) is a mobilization readiness program under the authority of Title VII of the DPA, designed to provide a volunteer cadre of trained executives to fill key Federal Government positions when needed during periods of national emergency. Exective Order 10660 of 1956 (superseded by Executive Order 11179) provides for establishment of NDER units. Members must be U.S. citizens having no other governmental emergency obligations and must possess the qualifications required to perform their planned emergency assignments.

The OIRA has a large and active NDER unit. It consists of executives from business, industry, the professions and the academic community who have achieved a distinguished record of voluntary public service. Sixty-five percent of these executives have participated actively in the program for over five years. The OIRA Reservists will augment OIRA staff for mobilization of industry during times of national emergency. They receive annual training to assure their preparedness to assist the Department on short notice. Training is conducted by OIRA staff, usually on a regional basis. Reservists' travel expenses are borne by themselves or by their employers. If called to full-time Federal Government employment, the Reservist has the option of serving with or without compensation. Reservists' activities in peacetime are limited to receiving training for mobilization assignments.

OIRA is actively recruiting for approximately 150 qualified executives to meet the 600 member NDER staffing requirement for national and regional standby emergency organizations. Recommendations for membership in the Reserve are made by industry associations, by Department of Commerce industry and trade specialists, and by specific firms in response to OIRA's recruitment activities.

3. INDUSTRIAL EVALUATION

The objective of the Industrial Evaluation program is to evaluate the capacity of U.S. industry to produce the goods and services required to meet national security needs. These capacity evaluations are performed by the Industry Evaluation Board (IEB), and interagency body chaired by OIRA and having membership from other resource agencies such as Agriculture, Defense, Energy, Health and Human Services, Interior, Labor, and the Federal Emergency Management Agency. Under the authority of Section 705 of the DPA, the IEB conducts mandatory response surveys of industry to determine, for specific products, services and plants, current production levels and maximum production capacity, the relative importance of individual manufacturing facilities, and the amount of dependence on imports and other factors that would impose potential limitations on output or production expansion.

The subjects of these evaluations are the types of products which are essential to the national defense and post attack survival. It is apparent that there is insufficient domestic production capacity to satisfy requirements during a period of national emergency. The products range from basic chemicals to components and end item products, such as napthenic acids, polypropylene resins, crystal growth, fine stainless steelwire, germanium dioxide and metal, pneumatic tires, and railroad freight and tank cars. Approximately twelve analyses are accomplished yearly.

Enclosure B: Federal Mobilization Programs Directed at Improving the Defense Industrial Base

Programs directed at improving conditions of the defense industrial base are being developed by the Emergency Mobilization Preparedness Board's recently

formed multi-agency Industrial Mobilization Working Group (IMWG), which I chair. The Commerce Department is committing four man-years per year to the work of the IMWG. The IMWG will:

Assess the capability of U.S. industry to meet current and emergency national security requirements;

Increase the ability of the industrial base to satisfy defense and essential civilian needs by identifying deficiencies and recommending actions to overcome them;

Enhance the availability and efficient use of industrial and related resources through full utilization of Defense Production Act authorities and systems, new or modified legislation, improved guidance on resource-claimancy for industrial production, and use of import and export controls;

Assess the impact on the industrial base resulting from existing and proposed agreements for co-production of defense materiel and related offset arrangements with our allies;

Develop options for greater utilization of members of the National Defense Executive Reserve;

Increase the availability of domestic metals and minerals essential for industrial production.

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